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# SPHERES OF INFLUENCE FOR EAST PALO ALTO

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Prepared For  
San Mateo Local Agency Formation Commission

By  
Angus McDonald & Associates  
Berkeley, California





# Angus McDonald & Associates

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July 10, 1981

San Mateo Local Agency  
Formation Commission  
County Government Center  
Redwood City, California 94063

Attention: B. Sherman Coffman  
Executive Officer

Subject: Spheres of Influence for East Palo Alto; 851

Dear Mr. Coffman:

The enclosed report presents our recommendations for spheres of influence for the East Palo Alto area of San Mateo County. As you requested, we have presented a specific recommendation rather than merely describing the pros and cons of the alternatives. The recommendation that your Commission approve a sphere for an incorporated City of East Palo Alto is a judgment on our part. It is based on a balancing of the advantages of incorporation compared to the advantages of another entirely realistic alternative - that of annexing to Menlo Park.

We recognize that there may be those who will not agree with our recommendations. We have attempted to present additional factual and judgmental information regarding the other alternatives, so that your Commission will have available options other than that which we recommend.

As you know, we originally had serious reservations about the fiscal feasibility of incorporation. The conclusions in our present report are based on a revised assumption regarding transfer of property tax revenues. Specifically, while we originally treated the entire cost of the Sheriff's services as a general county expenditure, we are now treating County Service Area 5 as a separate entity and are assuming that the entire property tax base generated in 1980/81 for County Service Area 5 would become part of the base of a new city.





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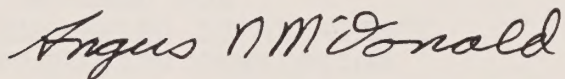


B. Sherman Coffman  
July 10, 1981  
Page 2

We understand that your legal counsel concurs with this revised assumption. If this assumption proves invalid for any reason (including a lack of concurrence by the County) we would revise our primary recommendation. We would not recommend incorporation but would instead recommend that East Palo Alto be included in Menlo Park's sphere of influence.

Yours very truly,

ANGUS McDONALD & ASSOCIATES, INC.

A handwritten signature in cursive script that reads "Angus N. McDonald".

Angus N. McDonald

ANM:ejg  
enclosures





SPHERES OF INFLUENCE  
FOR EAST PALO ALTO

PREPARED FOR  
SAN MATEO LOCAL AGENCY  
FORMATION COMMISSION

ANGUS McDONALD & ASSOCIATES  
BERKELEY, CALIFORNIA  
JULY, 1981

81-851

SAN MATEO LOCAL AGENCY  
FORMATION COMMISSION

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ACKNOWLEDGEMENTS

McDonald & Associates would like to acknowledge the help and cooperation of the public officials who were interviewed during the present project. The staffs of all of the affected local agencies were extremely helpful. The cooperative attitude of the advisors to the Institute for the Study of Community Economic Development was quite professional and much appreciated.

The conclusions and recommendations in the report are solely those of McDonald & Associates and do not necessarily reflect the policy of any agency contacted during the study.



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## I. INTRODUCTION AND SUMMARY

### A. The Assignment

The Knox-Nisbet Act (Government Code Section 54774) states that:

"...the Local Agency Formation Commission shall develop and determine the sphere of influence of each local governmental agency within the county. As used in this section 'sphere of influence' means a plan for the probable ultimate physical boundaries and service area of a local governmental agency."

East Palo Alto is an unincorporated area in San Mateo County whose sphere of influence is under study. A petition for incorporation of East Palo Alto as a city was submitted to the Local Agency Formation Commission (LAFCo) on April 10, 1981. Public services to the area of the proposed city are now provided by the county and a total of eleven districts. The service areas of the major districts (excluding the school districts) are shown in Figure I-1. LAFCo requested a recommendation regarding spheres of influence for East Palo Alto as a first step in its deliberations regarding the petition for incorporation.

The present report made use of the extensive body of materials that was already available concerning planning and economic development, governmental services and fiscal issues in East Palo Alto. Of some importance, the principal conclusions and the recommendation are based on additional findings that were generated during the present project.

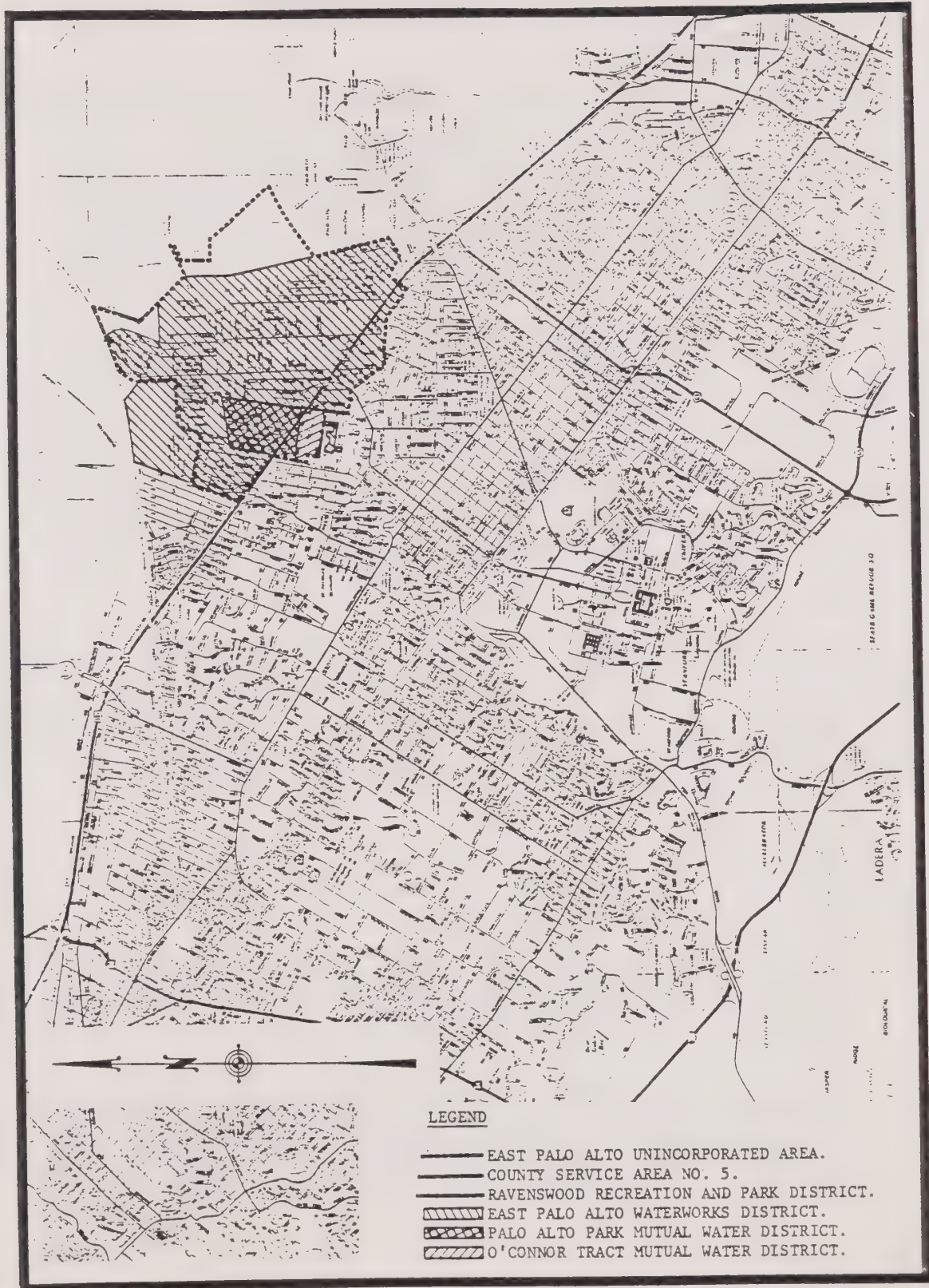
### B. The Issues

The alternative governmental arrangements for East Palo Alto that were analyzed included:

- Continue of the status quo (i.e. public services primarily a county responsibility) either indefinitely or while aggressive economic development activities could be implemented.
- Incorporate the area as a city which could either provide the full range of municipal services or limit itself to those services (police, public works, planning and land use control) that an incorporated city must provide.

Figure I-1

BOUNDARIES OF EXISTING AGENCIES

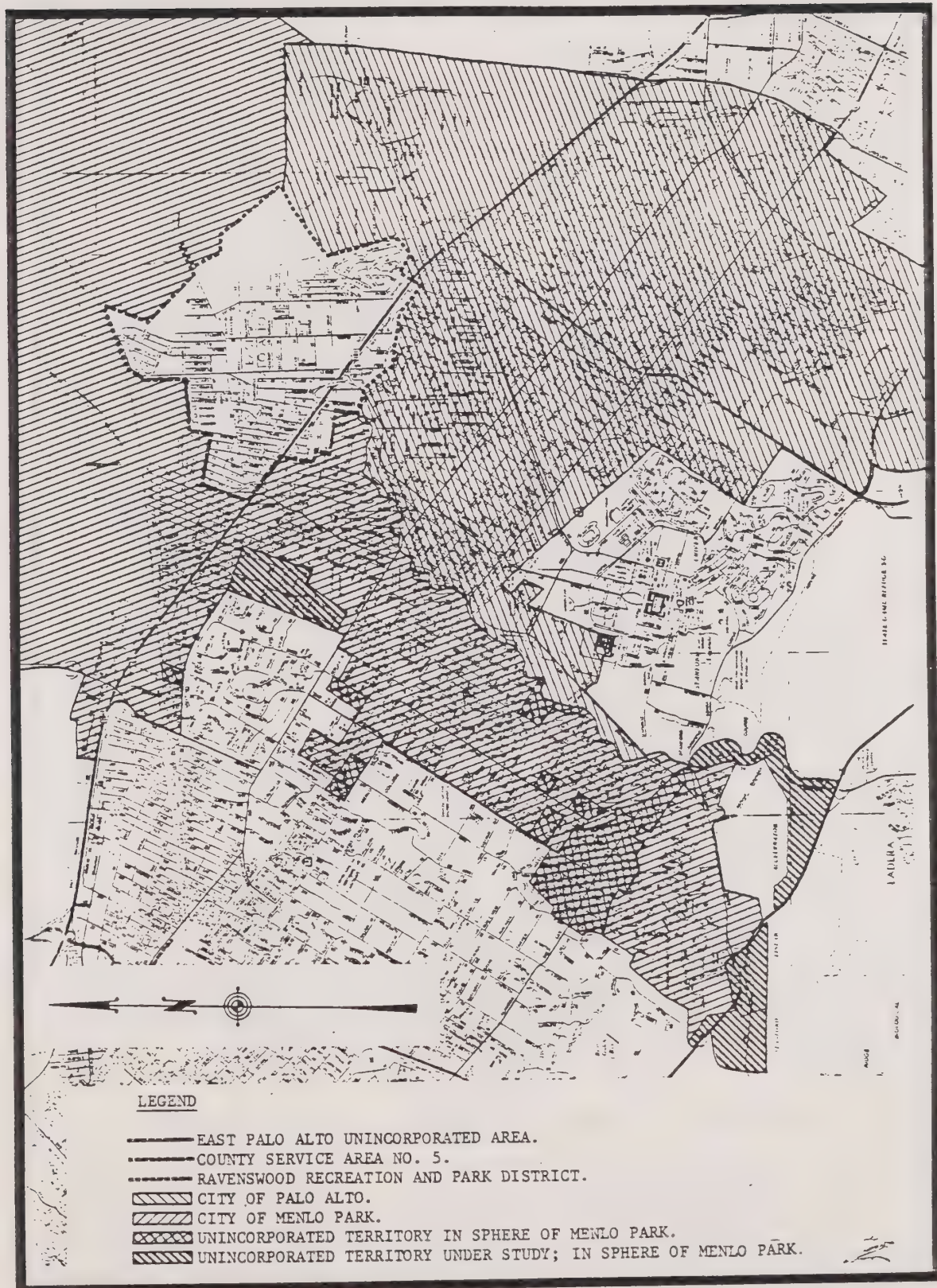


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Figure I-1 (Continued)

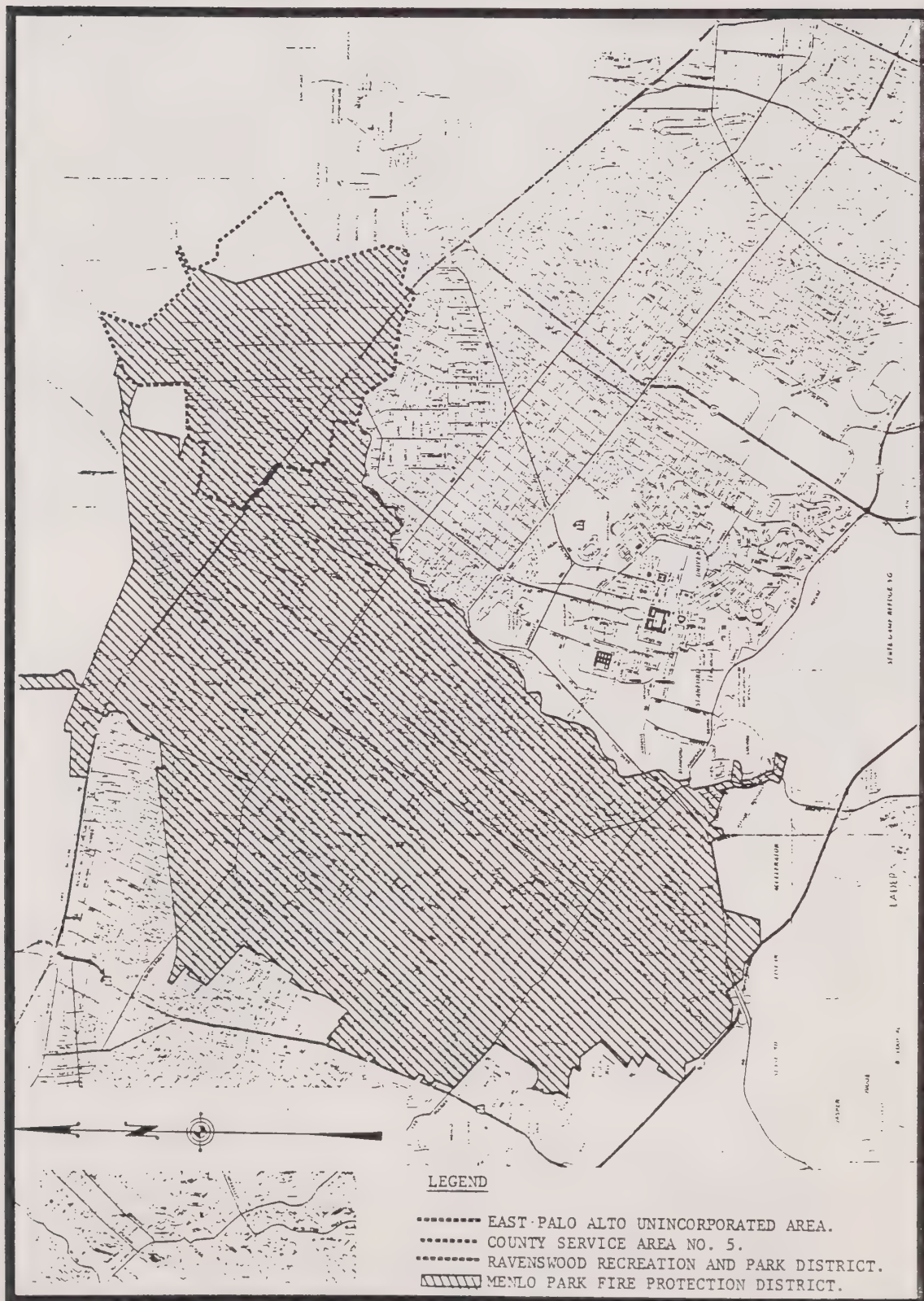
BOUNDARIES OF EXISTING AGENCIES



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Figure I-1 (Continued)

BOUNDARIES OF EXISTING AGENCIES



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Figure I-1 (Continued)

BOUNDARIES OF EXISTING AGENCIES



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- Place the area in Menlo Park's sphere of influence with a recommendation that the area be annexed to Menlo Park.
- Recommend that actions be initiated to change the Santa Clara/San Mateo County boundary, with the assumption that East Palo Alto would then be placed in the sphere of the City of Palo Alto and be annexed to Palo Alto.

Spheres of influence for the numerous districts now serving East Palo Alto would follow from the basic recommendations about the principal form of governmental organization.

The alternatives were each considered in terms of their individual merits and then were evaluated comparatively.

The previous debate about the fiscal feasibility of an incorporated East Palo Alto has not been concerned with the issue of a first year surplus. A new city collects revenues, but the county continues to pay for services until the start of the next fiscal year after the date of incorporation. Previous fiscal studies concluded that, after the first year, costs would be seriously in excess of revenues. The first-year surplus would have to finance this shortfall until community development programs could strengthen the tax base. The debate dealt with the question of whether incorporation would take place in a situation where community development was essential to long-term financial stability.

The analysis done during the present project makes a key assumption that reverses the conclusion that fiscal stability in East Palo Alto is not possible without economic development. While police protection is provided by the county sheriff, approximately 50% of the cost is financed from property taxes collected for County Service Area 5. Previous fiscal studies treated County Service Area 5 as a county cost. If County Service Area 5 is treated in the same manner as a special district whose service responsibilities are being completely assumed by a new city, then the city's property tax base is improved substantially. LAFCo's legal counsel has advised the staff and consulting team that it would be correct to assume that the entire property tax base of County Service Area 5 could be transferred to a new city. Under this assumption, the new city would have a positive fiscal balance, assuming all of the other assumptions used previously would not change. The new city would be in an approximately break-even position if the

city's voters did not approve the special taxes that were assumed previously.

The analysis of the fiscal impact of annexation to Menlo Park proved to be a textbook case of the ability of a medium-sized, well-managed city to extend services efficiently and economically. A revenue/cost balance was estimated that was somewhat more favorable than that estimated for an incorporated City of East Palo Alto. Further, estimates about annexation are based on policies and management capabilities of an existing city that can be observed and verified. The capabilities of a new city can only be conjectured.

The alternative of annexation to Palo Alto was not included in the final comparisons because:

- There is no fiscal incentive to Palo Alto. In fact, the estimates indicate a fiscal disincentive.
- The sequence of approvals necessary both to change a county boundary and to accomplish an annexation is quite complex. Success appears to be unlikely.
- There is no overwhelming advantage to an annexation to Palo Alto, compared to the other alternatives that are available.

The comparison of incorporation and annexation to Menlo Park was influenced strongly by two separate criteria.

San Mateo LAFCo uses a "community of interest" approach to spheres of influence studies. Study areas are defined as areas with common or interrelated economic, environmental, geographic, and social interests. East Palo Alto is predominantly minority and predominantly low income. Neither of these characteristics are typical of San Mateo County at large or of the surrounding cities. Nonetheless, while East Palo Alto has a strong sense of identity, certain portions of the community also identify closely with Menlo Park and, in fact, participate in the recreation programs and other public services available in the Belle Haven area of Menlo Park. "Community of interest" alone does not determine the appropriate sphere of influence.

A second LAFCo criterion concerns the ability to deliver public services in the most economically efficient manner. The preceding discussion indicated that the revenue/cost comparison

avored annexation. Further, the demonstrated management capabilities of Menlo Park suggest a strong probability that current public service deficiencies in East Palo Alto (e.g., the park and recreation program, drainage and the sewer system) would be corrected.

In fact, conventional public services are not the only issues. The major issue in East Palo Alto is economic and community development.

Presently, East Palo Alto is characterized by low density, single family housing units. There are no major employers and very limited commercial development. The lack of commercial development is indicated by the extremely low sales tax per capita in East Palo Alto. This lack of employment and commercial development renders East Palo Alto a bedroom community where residents must seek work or shop in surrounding communities. This situation greatly constrains the existing tax base available to local government. Economic development would include the attraction of employers to East Palo Alto, the development of resident-serving commercial businesses, construction of higher density residential units, and a general upgrading of community facilities including roads, parks, storm drainage, and sewers.

These improvements are essential to the long-term social and fiscal viability of East Palo Alto.

The analysis of alternatives for spheres of influence thus considered the somewhat opposing questions of the ability to perform economic or community development effectively, and the ability to finance services from the existing tax base, until community development could strengthen that tax base.

## C. The Recommendations

### 1. The Basic Recommendation

The consultants' conclusion is that, because of the issue of economic development, the advantages of incorporation outweigh the disadvantages. It is recommended that LAFCo establish a sphere of influence for a City of East Palo Alto that is coterminous with the present boundaries of County Service Area 5.

Once the conclusion was reached that a City of East Palo Alto would have a combination of community interest, size,



availability of infrastructure, and a public services plan that could be financed from local resources, the analysis concentrated on the community development issues. Consideration was given to the relative capacity of each alternative form of government to accomplish a community development program that would produce higher densities and improve the tax base and employment opportunity.

When the community development capacity of the alternatives were compared, there was a critical and overwhelming advantage for an incorporated East Palo Alto. Incorporation will focus the authority, the responsibility, and the tools that are currently available to accomplish community development in a single politically visible entity - the new City Council. The ability to identify responsibility directly and in stark terms is of great importance. Both the county and Menlo Park have strong technical skills to accomplish community development and have a superior access to important sources of credit because of their credit rating. Unfortunately, their community development responsibilities cannot be focused exclusively on East Palo Alto. It is highly likely that the East Palo Alto community would continue to feel that their area was being neglected by a somewhat remote political structure. The incentive to accept the responsibility for the success of a community development program would not be focused within the community.

A second reason for focusing responsibility is that community development is not going to happen (at least for the next four-to-eight years) without the active financial participation of the private sector. The community development programming that was initiated in the early 1970's was based on the underlying theme that, once a strong plan was in place, federal grants for community development would be available, particularly to a minority community. This assumption is no longer realistic. A strong community development program will happen only through a public-private partnership. The private sector is motivated by consideration of rates of return and risk as well as often being willing to consider social objectives. Perceptions about risk are directly related to perceptions about whether the public participants in a public/private partnership can actually deliver on their commitments.

In spite of a deep commitment on the part of a number of people, and in spite of considerable activity, community development in East Palo Alto has not progressed satisfactorily during the

last ten years. A major reason is that the private sector recognizes that decision making authority - the ability to "make a deal" - is not located in East Palo Alto. The ability to focus community concerns and the ability to express these concerns, if necessary, to the detriment of the smooth implementation of a project, are located in the community. The ability to deal directly with a city council that has both decision making authority and accountability to a local constituency will produce a situation where community development projects are approved - or disapproved - after a "one stop" review. If, conversely, the new city does not create a climate where approval or disapproval of proposed projects can be accomplished efficiently and impartially, then there will be no question as to the location of responsibility and accountability for this situation.

## 2. The Contingency Plan

The recommendation is based on the present conclusion that incorporation is financially feasible from the existing tax base. The following major preconditions are necessary if this conclusion is to be borne out.

- Incorporation would occur on or immediately after July 1, 1982, to maximize the time during which the city accrues revenues but does not incur most of the costs of providing service.
- The county would finance major street improvements (ranging in cost from \$3.1 to \$6.8 million depending on the development plan) before incorporation takes place.
- The transfer of property tax revenue base would be substantially in accord with the assumptions used in the present study.
- The Menlo Park Fire Protection District would continue to provide fire protection so that at least for the first several years the new city, by itself, would not bear the exposure to unexpected cost increases for fire protection.
- LAFCo's statements about incorporation would prominently and clearly note that financial feasibility is based, in part, on a move from property taxes to user fees to support street lighting and utilities. Property tax revenues now supporting these municipal enterprises would be used for

general governmental purposes. Average cost per household would increase approximately \$54 per year or \$4.50 per month.

- An appropriations limit (as required by the Gann Initiative) should be established at the time of incorporation and should be in excess of the expenditures from proceeds of taxes shown in the feasibility study. This excess amount would assure the capacity of the new city to appropriate revenues that result from a successful community development program.
- A condition of incorporation would include protection of the established employee benefit rights of employees of special districts whose responsibilities would be assumed by the new city.

The conditions listed above are considered to be essential to the recommendations for incorporation. If they are not acceptable to LAFCo or if they cannot be implemented because of the objections of other participants, then the basic recommendation is withdrawn. If the conditions cannot be included with the basic recommendation, then the recommended alternative is inclusion of East Palo Alto in the sphere of influence of Menlo Park with the recommendation that annexation proceedings be initiated.

If the "contingency plan" for Menlo Park annexation becomes necessary, it is strongly recommended that the entire East Palo Alto area be treated similarly. Insofar as its powers permit, LAFCo should discourage any attempt to annex only the portion of East Palo Alto located west of the Bayshore Freeway. The tax base per capita is significantly stronger in the west of Bayshore area. An annexation of the west Bayshore area would completely preclude any realistic governmental alternative for the remaining portion of East Palo Alto.

### 3. Recommendations for Each Alternative

The previous paragraphs presented a specific consultants' recommendation for the major sphere of influence. It is recognized that the Commission, after deliberation, may select another alternative. Table I-2 shows the assignment of spheres of influence and the assignment of responsibility that would be recommended for each of the major alternatives.



Table I-2

STATUS OF EXISTING AGENCIES FOR EACH  
REORGANIZATION ALTERNATIVE

<u>Agency</u>	<u>Status Quo</u>	<u>LAFCo Action</u>		
		<u>Incorporation of East Palo Alto</u>	<u>Annexation to Menlo Park</u>	<u>Annexation to Palo Alto</u>
San Mateo County	Continues to provide service	Responsibility for municipal service transferred - partial property tax revenue transfer	Responsibility for municipal services transferred - partial property tax revenue transfer	Reduced county boundary. Service responsibility transferred - property tax transferred (note: school district boundary change should be considered)
County Library	Continues to provide service	Continues to provide service	Service responsibility transferred - property tax transferred	Service responsibility transferred - property tax transferred
County Service Area 5	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated
East Palo Alto County Waterwork District	Continues to provide service	Service responsibility transferred - jurisdiction eliminated	Service responsibility transferred - jurisdiction eliminated	Service responsibility transferred - jurisdiction eliminated
East Palo Alto Municipal Council	Continues to provide service	Function absorbed by city	Function absorbed by city	Function absorbed by city
East Palo Alto Sanitary District	Included in Menlo Park Sanitary District sphere of influence - absorbed ultimately	Service responsibility transferred - property tax transferred - jurisdiction eliminated. City should consider contracting with Menlo Park Sanitary District.	Included in Menlo Park Sanitary District sphere of influence - absorbed ultimately	Service responsibility transferred - property tax transferred - jurisdiction eliminated
East Palo Alto and Palo Alto Gardens Drainage Maintenance Districts	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated
Menlo Park Fire Protection District	Continues to provide service	Continues to provide service	Continues to provide service	Service responsibility transferred - property tax transferred - boundaries reduced

Table I-2 (Continued)

STATUS OF EXISTING AGENCIES FOR EACH  
REORGANIZATION ALTERNATIVE

<u>Agency</u>	<u>Status Quo</u>	<u>LAFCo Action</u>		
		<u>Incorporation of East Palo Alto</u>	<u>Annexation to Menlo Park</u>	<u>Annexation to Palo Alto</u>
Menlo Park Sanitary District	Continues to provide service	Continues to provide service	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction reduced
Private Water Companies	Continues to provide service	Continues to provide service	Continues to provide service	Continues to provide service
Ravenswood Highway Lighting District	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated
Ravenswood Recreation and Park District	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated

Note: Other agencies in the County would continue to provide service under all alternatives with the exception of the annexation to Palo Alto. Annexation to Palo Alto requires a County boundary change and a transfer of service responsibility. The agencies that might be affected include: Ravenswood Elementary, Sequoia High School District, Mid-Peninsula Open Space District, County Harbor District, and the Mosquito Abatement District. The levies for school equalization aid and County education tax would be transferred.

Source: McDonald & Associates.





## II. COMPARING THE ALTERNATIVES

The decision that the San Mateo Local Agency Formation Commission must make about responsibility for providing public services in East Palo Alto is, like all decisions, a choice from among alternatives. The present sphere of influence study considered four major alternatives:

- continuation of the status quo
- incorporation of a City of East Palo Alto with boundaries coterminous with the existing County Service Area 5
- annexation of East Palo Alto to the City of Menlo Park
- a change in the Santa Clara/San Mateo County boundary and ultimate annexation of East Palo Alto to the City of Palo Alto.

Each of the alternatives was considered separately, on its own merits, in terms of efficiency in providing public services and relationships between public revenues and public costs. After this individual evaluation, the alternatives were evaluated comparatively, considering the merits of one against the merits of the others. The evaluation criteria were derived from standards that have been adopted by LAFCo for the evaluation of proposed governmental reorganizations (R-29\*). Certain additional criteria were used that are specifically applicable to East Palo Alto. A recommendation was made after the comparative evaluation had been completed.

While San Mateo County is responsible for providing major municipal services in East Palo Alto, there are also a total of eleven special districts, plus two privately owned mutual water companies that provide public services in the area. The recommendations for spheres of influence of these entities were developed after the major alternatives for municipal government had been evaluated. The choice of the major alternative had a strong influence on the logical decision about disposition of special districts.

A form of alternative that was considered and rejected was that of proposing separate governmental solutions for sub-areas of

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\* Underscored numbers in parentheses refer to numbered references at the end of this report.

East Palo Alto. The Bayshore Freeway is a major physical barrier dividing East Palo Alto. There has been some discussion in the past about separate governmental arrangements for the areas east and west of the freeway. One suggestion, for example, was that only the area west of the freeway be annexed to Menlo Park. Table II-1 confirms that the eastern and western portions have somewhat different characteristics. The table also illustrates some of the reasons why it is undesirable to consider separate governmental solutions for the two areas. The area west of the freeway has a significantly stronger tax base per capita than does East Palo Alto as a whole. A partial annexation would capture the stronger portion of the community's revenue base without acquiring responsibility for significant costs. At the same time, loss of the west-of-Bayshore area would significantly weaken the fiscal viability of the remaining area, as a candidate either for future annexation or for incorporation.

#### A. Technical Approach

The present spheres of influence study was based, in part, on work completed previously and, in part, on original research. Specifically:

- The analysis of incorporation that was completed in 1979 (R-1) was later revised by the staff of the East Palo Alto Municipal Council (R-14). This latter analysis was then used as the basis for a new and updated analysis dated April 27, 1981 (R-15). The incorporation feasibility analysis attached to the present report is a further revision to the April 27 analysis. It uses an assumption about transfer of the property tax base of County Service Area 5 that is significantly more favorable to incorporation. It incorporates the terms of the municipal finance legislation for the 1981/82 fiscal year (Senate Bill 201).
- The analyses of annexation to Menlo Park and to Palo Alto were based on original research completed for the present project.
- The analyses of district consolidation and of the status quo were based in part on the experience of the consultants



Table II-1

CHARACTERISTICS OF EAST PALO ALTO'S SUBAREAS

	<u>Total</u>	<u>West of Bayshore</u>	<u>East of Bayshore</u>
POPULATION DISTRIBUTION WITHIN EACH AREA			
White	25.5%	68.7%	13.9%
Black	61.1	20.1	72.0
Other	13.4	11.2	14.1
Total	100.0%	100.0%	100.0%

DISTRIBUTION BETWEEN THE AREAS			
Population	100.0%	21.1%	78.9%
Property Value	100.0%	32.2%	67.8%
Taxable Retail Sales	100.0%	57.9%	42.1%

Source: U.S. Bureau of the Census, California State Board  
of Equalization, San Mateo County Asessor

during the previous studies and in part on interviews conducted during the present project.

In each case, the analysis reflects the most recently available information for each agency that would be affected by the alternatives for governmental reorganization.

## B. Summary of the Alternatives

Each of the major alternatives is analyzed in the appendix to the present report. The following paragraphs summarize the key conclusions about each individual alternative, as a prelude to the comparison of the alternatives.

### 1. The Status Quo

The first question before any reorganization is considered must concern the problems with the status quo. In the case of East Palo Alto, the status quo is reasonably satisfactory if one considers only conventional municipal services. Responsibility for service delivery is fragmented between the county, a county service area, and eleven special districts, but in practice services are being delivered reasonably efficiently. Postponing for a moment the question of community development, with the exception of the park and recreation program, there would not be a significant increase in level of service under the other governmental alternatives that were considered.

In addition, the status quo offers certain advantages that might be lost under any of the other alternatives. The county can focus a high level of management expertise on governmental issues in East Palo Alto. This expertise ranges from ability to deal with sophisticated planning and financing programs to an ability to monitor state legislation and provide input to the legislative process. The technical capacity of the county government is an important resource that would not necessarily be available under the other alternatives.

A second major strength of the county is its overall tax base and credit rating. Certain financing techniques that might be crucial to a community development program in East Palo Alto, such as redevelopment law financing or use of mortgage revenue bonds, would be facilitated if they had the financial and managerial backing of San Mateo County government.



The major shortcoming of the status quo arrangements has been the lack of success, to this point in time, in actually implementing an economic development program in the East Palo Alto community. (The terms "economic development" and "community development" are used somewhat interchangeably in the present report and refer to the range of activities that would strengthen the tax base of East Palo Alto as well as providing employment opportunities. Examples of the types of development that would accomplish these ends range from a revitalization of the Nairobi Shopping Center to construction of higher density and/or higher cost residences than are now typical in the community.)

In the opinion of the consultants, the status quo is a significant impediment to achieving the development potential of East Palo Alto. The relationship between the East Palo Alto Municipal Council and county government has been an impediment to economic development. When viewed from the perspective of the development industry, the relationship has unavoidably created a division of authority that does not enhance the chance of success of a development proposal.

The Municipal Council has both a role and a responsibility to advise the Board of Supervisors on development issues, as well as other issues affecting the community. The Municipal Council does not have the authority to make commitments on development issues. The proponent of a development project views the situation as one where the Municipal Council can raise concerns that should be mitigated, but cannot guarantee the incentives or other trade-offs that might otherwise be available. The presence of an agency with advisory responsibilities but no decision making authority creates a situation where there are two sources of negative reaction, but only one source of commitments that can actually be guaranteed.

Consideration was given in the present project to a modification to the status quo that would have localized decision making authority for land use decisions within East Palo Alto. The California Constitution enables charter cities to:

"... provide for the establishment of a borough system of government for the whole or any part of the territory of the city ... governed thereby, ... and to provide that each borough or district may exercise such general or special municipal powers, and to be administered in such manner, as may

be provided for such boroughs and districts in the charter of the city . . ."

In concept, the same authority could be established for San Mateo County. East Palo Alto and the remainder of San Mateo County could be separate boroughs. The police power over land use could be delegated to the borough, but other county functions and financial responsibilities could be administered countywide. In practice, a borough system would be difficult to establish both technically and politically. Beyond the pioneering nature of the use of a borough, there is a serious question whether a county could establish a borough without specific authority in the California Constitution (R-11). Also, two of the other governmental alternatives that were considered in the present study could deal with the problem of divided responsibility for development decisions.

## 2. An Incorporated City of East Palo Alto

The major question about whether East Palo Alto could be incorporated as a city concerned the ability of the local tax base to support the cost of public services. A series of studies that began in 1971 (R-1; R-2; R-15) have questioned whether the tax base was sufficient. (The original study (R-2) was done prior to the passage of Proposition 13. At that time, a high voter-approved property tax rate could theoretically have remedied a cost/revenue imbalance, but the indicated tax rate seemed to be in excess of what would probably have been approved.)

The fiscal feasibility issue involved the long-term cost revenue balance rather than the initial fiscal situation. For the first several years after incorporation, a new city enjoys certain financial advantages. By law, the county continues providing municipal services from the date of incorporation to the start of the next fiscal year. If incorporation takes place on July 1, 1982 (the assumption in the present case) a new city would collect revenues for a full year, with allowance for the fact that there are initial delays in revenue collection because of the necessity to implement administrative regulations. The new city would not bear the cost of providing services during the first year. The effect is to accrue a first year surplus which is available for start-up costs and operating reserves and which can provide a financial "cushion" for the first years of municipal operation.



Certain significant municipal revenues are collected by the state and shared with cities and counties on the basis of formulae that include population as a factor. Population is estimated to be equal to three times the number of registered voters on the date of incorporation. If this estimate is to the advantage of a new city - as is currently the case in East Palo Alto - the advantage can be continued until the next U.S. Census. Thus, East Palo Alto could enjoy its advantage for nearly ten years. In fact, continued success in registering voters between now and the date of an incorporation would produce additional annual revenue equal to approximately \$90 per voter registered. (This advantage would also apply to the annexation alternatives.)

The issue of fiscal feasibility arose because the previous fiscal studies concluded that, given the present tax base of East Palo Alto, the estimated level of cost of municipal service would exceed revenues on an annual basis. The first-year surplus would have to be used to finance the shortfall until community development programs could strengthen the tax base. Alternatively, the cost and level of service could be lowered beyond the level assumed in the analysis. Even this conclusion was based on several assumptions. Utility services would be financed entirely from user fees leaving the existing property tax base for general governmental programs. Utility fees would also pay a portion of the city's administrative cost, and the voters would approve special taxes by a two-thirds vote.

The present analysis uses an assumption that reverses the conclusion that revenues would seriously exceed costs. The previous studies treated the entire cost of police protection (provided by the sheriff) as a county cost. During the present project, research and inquiries were devoted to the question of whether County Service Area 5 could properly be treated in the same manner as a special district whose service responsibility was entirely assumed by a new city. This assumption would materially strengthen the city's tax base since property tax revenues equal to approximately half of the sheriff's cost would transfer directly to the new city. If police protection is treated as a county cost, only an amount equal to the proportion that property tax revenues bear to total county general revenues would be transferred.

Since the assumption was key to the long-term financial feasibility of the new city, a legal opinion was requested from the LAFCo legal counsel. This opinion (R-31) confirmed that

Table II-2

FUND BALANCES FOR A CITY OF EAST PALO ALTO  
WITHOUT SPECIAL TAX  
(In thousands)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
<u>Starting Fund Balance (July 1)</u>					
General Fund	0	425	358	297	243
Road Fund	0	185	161	119	58
Utility Funds	0	63	63	63	63
<u>Annual Fund Balance Change</u>					
General Fund					
Revenues	1,026	2,050	2,056	2,063	2,072
Expenditures	601	2,383	2,383	2,383	2,383
Interfund Transfers	0	266	266	266	266
Net Annual Change	425	(67)	(61)	(54)	(45)
Road Fund					
Revenues	185	178	160	141	121
Expenditures	0	122	122	122	122
Interfund Tranfers	0	(80)	(80)	(80)	(80)
Net Annual Change	185	(24)	(42)	(61)	(81)
Utility Funds					
Revenues	1,141	1,264	1,264	1,264	1,264
Expenditures	1,078	1,078	1,078	1,078	1,078
Interfund Transfers	0	(186)	(186)	(186)	(186)
Net Annual Change	63	0	0	0	0
<u>Year End Fund Balance (June 30)</u>					
General Fund	425	358	297	243	198
Road Fund	185	161	119	58	(23)
Utility Funds	63	63	63	63	63
TOTAL	673	582	479	364	238

## Note:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.

Source: McDonald & Associates.

the entire property tax entitlement of County Service Area 5 could be transferred.

The results of the revised analysis are summarized in Table II-2. It does not assume that special taxes will be approved. The assessment of the feasibility of incorporation should not assume that special taxes will be approved. LAFCo has been advised by its legal counsel that it does not have the power to condition an incorporation on simultaneous approval of special taxes by two-thirds of the voters (R-33).

The situation illustrated in Table II-2 is approximately a balance between costs and revenues. There is a general fund shortfall in the first year of full city operation but the situation improves slightly each year. The initial deficits are shown as being financed from the first year surplus. In practice, the size of the deficits are such that they could be eliminated by budgetary and management controls such as delayed hiring or use of temporary employees who do not receive employee benefits.

The road fund shows more serious problems but they are not unique to East Palo Alto. The major source of financing for streets and roads - the tax on gasoline - is levied on a cents-per-gallon basis. It responds to gallonage sold - which is declining - rather than to price. At the same time, the cost of roadway construction and maintenance has increased dramatically. In terms of real purchasing power, the tax on gasoline has declined significantly. The financial situation for street programs is extremely serious for local governments throughout California and a solution is a statewide issue. The California Transportation Commission has endorsed a tax increase that would be shared with local government (R-8) and legislation for a tax increase for street purposes is now being considered actively. In any case the problem of street finance is not local to East Palo Alto and the ultimate solution will have the support of a statewide constituency.

Since previous fiscal studies had shown the impact of voter approval of special taxes, a comparable exhibit was prepared, for purposes of illustration only. Table II-3 shows the combined effect of special business license and utility users taxes plus the assumed full transfer of the property tax base of County Service Area 5. It shows a condition of financial strength, with a surplus that increases over the 5-year period.



Table II-3

FUND BALANCES FOR A CITY OF EAST PALO ALTO  
WITH SPECIAL TAX  
(In thousands)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
<u>Starting Fund Balance (July 1)</u>					
General Fund	0	669	927	1,235	1,602
Road Fund	0	185	161	119	58
Utility Funds	0	63	63	63	63
<u>Annual Fund Balance Change</u>					
General Fund					
Revenues	1,270	2,375	2,425	2,484	2,549
Expenditures	601	2,383	2,383	2,383	2,383
Interfund Transfers	0	266	266	266	266
Net Annual Change	669	258	308	367	432
Road Fund					
Revenues	185	178	160	141	121
Expenditures	0	122	122	122	122
Interfund Tranfers	0	(80)	(80)	(80)	(80)
Net Annual Change	185	(24)	(42)	(61)	(81)
Utility Funds					
Revenues	1,141	1,264	1,264	1,264	1,264
Expenditures	1,078	1,078	1,078	1,078	1,078
Interfund Transfers	0	(186)	(186)	(186)	(186)
Net Annual Change	63	0	0	0	0
<u>Year End Fund Balance (June 30)</u>					
General Fund	669	927	1,235	1,602	2,039
Road Fund	185	161	119	58	(23)
Utility Funds	63	63	63	63	63
TOTAL	917	1,151	1,417	1,723	2,074

## Note:

- 1) Special taxes would require approval of 2/3 of the voters at an election held after the incorporation.
- 2) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.

Source: McDonald & Associates.

In summary, the present analysis concludes that municipal incorporation of East Palo Alto is fiscally feasible. Three key assumptions must be kept in mind:

- The new city incorporates on July 1, 1982 and has maximum opportunity to accumulate an initial surplus.
- The entire property tax base of County Service Area 5 is transferred to the new city.
- The new city shifts entirely to a policy of paying for utilities from user fees and also charges an appropriate percentage of overall city administrative costs against these fees to recover the cost of administering the utility operations. This practice would increase costs for the average household by approximately \$54 per year.

Other key points about the financial analysis should be noted:

- The assumed budget provides for limited initial capital outlays that would be borne by a new city.
- The budget assumes that key city staff will be added early in the first year (even though the county continues to provide services) to assure efficient start-up of the city.
- Neither the budget nor the conclusion about feasibility depends on federal or state capital grants. Successful pursuit of grants would improve the city's situation.
- The fiscal analysis did not assume any growth or economic development over the first five years after incorporation.

The latter point requires clarification. Economic development would be a major objective after incorporation. Strengthening the tax base depends on economic development. Recent estimates (R-21) indicate that a successful community development program would, in fact, strengthen the tax base. Nonetheless, the purpose of the fiscal analysis was to test the feasibility of incorporation. Prudence dictated that a conservative assumption be used in the analysis.

In the past, there has been considerable discussion about whether LAFCo could control the date of incorporation, one of the key assumptions listed above. A legal opinion obtained by McDonald

& Associates for another project (R-3) clarified this situation. If there is no other provision in the incorporation proceedings, the effective date of incorporation is the date of execution of the certificate of completion, after a successful incorporation election. However, LAFCo has limited discretion to specify the effective date of incorporation. This date can occur any time between the date of execution of the certificate of completion and the "... due date of any taxes or assessments levied upon property within the affected territory which was subject to the incorporation ...". The situation is illustrated in Figure II-4. If an election were held at the April, 1982 regular election, LAFCo could specify an effective date of incorporation any time between the earliest feasible date to complete the certificate of completion and November 1, 1982. Thus, an effective date of July 1 (the date that would provide the longest feasible period to accrue revenues without bearing the cost of service) is entirely practical. If, by contrast, the election took place in November, 1981, the city would have (at most) approximately seven months in which it would accrue surplus revenues.

### 3. Annexation to Menlo Park

The fiscal analysis considering the cost/revenue impacts of annexing East Palo Alto to the City of Menlo Park indicates that annual revenues exceed costs by 3% in year two through five. In year one the cost exceeds revenues because of first year capital costs for police communications equipment and public works equipment. Table II-5 indicates the net annual revenue to the city during the five-year planning period. The cumulative revenue surplus at the end of the fifth year is estimated at \$191,000. Other key findings are:

- General government costs for Menlo Park would increase by 17 percent while overall population increases by 69 percent. This is brought about by the economy of size which is experienced by the Menlo Park general government departments when additional service demands are imposed on an existing efficient system.
- Community development is a self-paying department with no additional costs in excess of revenues expected from the East Palo Alto annexation. The fee structure for planning inspection currently pays for the cost of those services. The block grants for housing rehabilitation



Figure II-4

TIMING OF A MUNICIPAL INCORPORATION

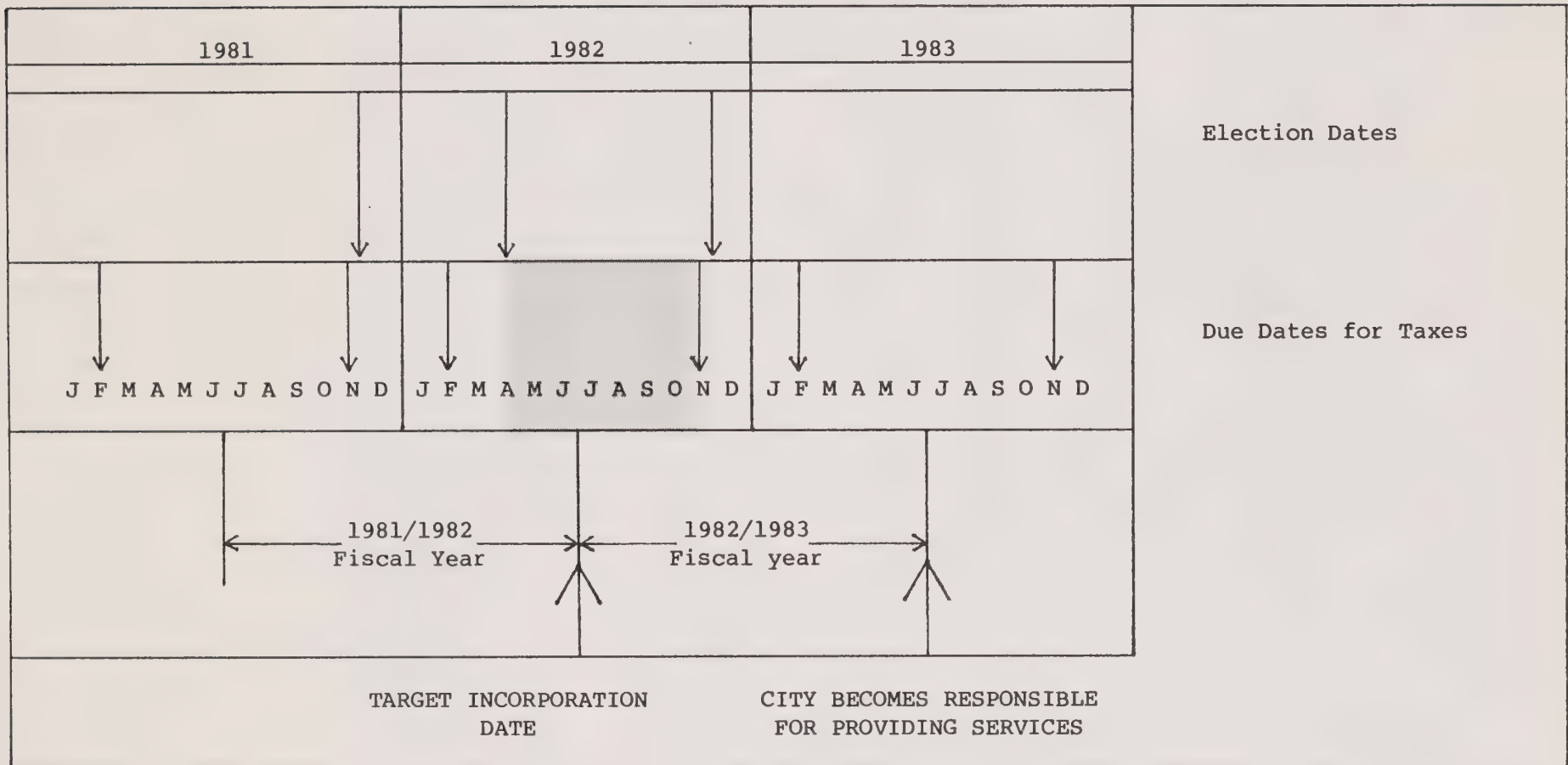


Table II-5

COMPARISON OF GOVERNMENT COST AND REVENUES  
OF ANNEXATION OF EAST PALO ALTO  
TO THE CITY OF MENLO PARK

(thousands of 1981/82 dollars)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
Cost Summary	2,261	2,152	2,152	2,152	2,152
Revenue Summary	2,213	2,212	2,211	2,211	2,213
Cost/Revenue Balance	-48	+60	+59	+59	+61
Cumulative Total	-48	+12	+71	+130	+191

Source: McDonald & Associates.

are funded from non-General Fund sources and could be expanded to administer a housing program in East Palo Alto.

- While overall population increases by 69 percent, police costs would increase by 62 percent. This is due to the economy of size for police administration and other overhead functions. The estimate of additional police service to East Palo Alto corresponds to the type of service currently provided for residents of Menlo Park. Patrol car staffing practices in Menlo Park differ from that currently used in East Palo Alto in that single-person cars are used on all shifts.
- Costs in East Palo Alto are assumed to be comparable to the levels of service currently provided for streets and open space and park maintenance in Menlo Park. It was assumed that the Public Works Department would take jurisdiction over the East Palo Alto County Water Works District, at no capital cost to Menlo Park. This analysis did not attempt to evaluate the possible efficiency gains in water delivery costs since this service cost is paid for with user fees and would not affect the cost/revenue balance of the city. The street lighting jurisdiction would also be absorbed by the city. These costs and revenues are included in the annexation analysis in the Appendix.
- Library and recreation service costs and revenues are assumed to accrue to Menlo Park with service levels approximately equal to the current level now experienced in East Palo Alto. Access to library service would be the same with the branch library in East Palo Alto being operated by the city.
- The annexation analysis assumes that no additional extension to Menlo Park buildings or facilities is required for the additional staff and equipment. Further, this analysis assumes that all facilities absorbed in the annexation from other jurisdictions are in working order. Any substantial need for improvements, replacements, or additions could easily cause the costs to exceed the revenues during the first year(s) after annexation.



#### 4. Annexation to Palo Alto

The fiscal analysis of annexing East Palo Alto to the City of Palo Alto indicates that the annual costs exceed revenues by 17% to 19% during the five-year study period. Table II-6 indicates that the annual net shortfall varies between \$496,000 and \$398,000 with the cumulative shortfall at the end of the fifth year in excess of \$2.1 million. Other key findings are:

- General government costs increase by 11% while overall population increases by 33%. This assumes an economy of size similar to the annexation analysis of Menlo Park.
- Additional costs for planning and inspection would be paid for from fees or services with a net impact on the budget of \$138,000 annually for advance planning cost.
- Police costs increase by 24% while overall population increases by 33%. This is due to the economy of size in police administration and other overhead functions. The per capita police costs in Palo Alto are generally higher than Menlo Park's (and the estimate of sheriff costs observed in the East Palo Alto incorporation study) because of Palo Alto's large commercial/industrial base and the correspondingly larger daytime population.
- Public works costs for street maintenance, sweeping, storm drain maintenance, and park maintenance, assume a service level currently provided in Palo Alto. Other public works responsibilities are for self-supporting utility programs including electric, gas, water, sewer and refuse services.
- Library and recreation service costs are assumed to accrue to Palo Alto with service levels equal to the service now provided in East Palo Alto.
- This analysis assumes no additional facilities are necessary to house the additional staff and that all facilities absorbed into the city from the jurisdictions currently providing service in East Palo Alto are in working order. Any substantial need for improvements, replacements, or additions would cause the costs to exceed the revenues by an even greater margin during the first few years.

Table II-6

COMPARISON OF GOVERNMENT COST AND REVENUES  
OF ANNEXATION OF EAST PALO ALTO  
TO THE CITY OF PALO ALTO

(in thousands of 1981/82 dollars)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
Cost Summary	\$3,115	\$3,035	\$3,035	\$3,035	\$3,035
Revenue Summary	2,619	2,621	2,624	2,630	2,637
Cost/Revenue Balance	-496	-414	-411	-405	-398
Cumulative Total	-496	-910	-1,321	-1,726	-2,124

Source: McDonald & Associates.

In summary, the annexation of East Palo Alto would cause a significant fiscal shortfall although the analysis of annexation of East Palo Alto to Menlo Park yielded quite different and positive results. There are three factors that contribute to the difference:

- Fire protection, which is included in the Palo Alto analysis, adds \$714,000 of cost while contributing \$300,000 in property taxes. The \$414,000 difference would be funded from Palo Alto's general fund. Fire protection in Menlo Park (and in East Palo Alto) is provided by the Menlo Park Fire Protection District which has a sub-regional tax base.
- Advance planning in Palo Alto is funded from the general fund with a projected cost for extending service to East Palo Alto of \$138,000. On the other hand, Menlo Park has a fee structure which pays for advance planning with a net public cost of extending service to East Palo Alto of zero.
- Per mile street maintenance costs and park maintenance costs are slightly higher in Palo Alto than in Menlo Park.

An annexation of East Palo Alto to the City of Palo Alto would involve significant initial complications. Palo Alto is in Santa Clara County and California law prohibits a city boundary that crosses a county line. The first step towards annexation would be to change the location of the San Mateo/Santa Clara County boundary.

A procedure is described in Government Code Section 23230ff for changing county boundaries. The process, which is not subject to review by the LAFCo in either county involves the following sequence:

- The process can be initiated by resolution from either county's Board of Supervisors or by resolution from an affected city. The process can also be initiated by a petition signed by 25% of the voters in each county.
- The Governor appoints a five-member County Boundary Review Commission. Two members must be residents of the transferring county, two members must be residents of the accepting county and the fifth member cannot be a resident of either county.



- The County Boundary Review Commission holds hearings and makes determinations on a number of issues, including:
  - distribution of responsibility for existing indebtedness;
  - service responsibility and fiscal impact on each county and residual economic viability of each county;
  - revised boundary lines for supervisorial districts in each county in a manner that results in a population in each district that is as equal as possible to the population in each other district in the county.
- Each Board of Supervisors must then approve the report of the Boundary Review Commission.
- The voters in the area being transferred must then approve the transfer by a simple majority.

The process of changing a county boundary thus involves a complicated series of steps, any one of which could be fatal to the proposed annexation, even before the merits of the annexation are formally considered by Palo Alto.

#### C. A Comparison of the Alternatives

As noted previously, after the major governmental alternatives had been evaluated separately, they were compared each against the others. The standards for comparison were developed from policies and criteria that had previously been adopted by LAFCo (R-29). The results of the comparison are shown in Table II-7. The comparison of the alternatives is expressed in positive terms. For example, the words "very high" imply that the alternative being discussed performs very well, according to the standard being considered.

The analysis in Table II-7 uses only those LAFCo standards for evaluation that were relevant to East Palo Alto. In addition, two evaluation criteria were added to deal with concerns that are of particular importance either because of the circumstances in East Palo Alto or because of the characteristics of the alternatives.

Table II-7

## COMPARISON OF ALTERNATIVES

Standard for Evaluation	Alternative			
	Status Quo	Incorporate	Annex to Menlo Park	Annex to Palo Alto
Appropriateness of Boundaries	Relatively low, in spite of county's and Municipal Council's effort to focus concerns and solutions. East Palo Alto is only a small portion of the county and cannot muster a strong countywide political base.	Very high. Relative support from west of Bayshore and east of Bayshore can only be confirmed at the polls.	Relatively high. East Palo Alto has both economic and political ties with Menlo Park. The East Palo Alto area, acting alone or in concert with Belle Haven, would be an important voice in an enlarged City of Menlo Park.	Lower than the Menlo Park annexation alternative. Higher than the status quo alternative.
Conformance with City or County General and Specific Plans	The county is in the process of adopting a community plan for East Palo Alto that would place considerable emphasis on economic development. The status quo option would thus be entirely consistent with adopted plans.	The East Palo Alto planning program currently in progress had extensive community input. It can be anticipated that the current directions would be maintained by a new city.	The planning issues in East Palo Alto are comparable to those of Belle Haven and Menlo Park has responded to these issues in a way that is consistent with the planning policies that have been endorsed by the Municipal Council and the county.	The planning issues in East Palo Alto are not typical in Palo Alto but the city has strong staff skills that could deal with the issues in East Palo Alto.
Duplication of Authority to Perform Similar Functions	Considerable duplication already exists.	Incorporation would not eliminate the existing duplication and would create San Mateo County's 20th city.	Eliminates considerable duplication. Offers opportunities for district consolidation without duplication.	Eliminates some duplication. Requires transfer of fire service responsibility without necessarily improving service.

Table II-7 (Continued)

COMPARISON OF ALTERNATIVES

Standard for Evaluation	Alternative			
	Status Quo	Incorporate	Annex to Menlo Park	Annex to Palo Alto
Economic and Fiscal Efficiency:				
- Service Delivery	Continues the county's role in providing what are essentially municipal services.	Would create a situation where services could be delivered relatively efficiently but not as efficiently as with annexation.	Would use an existing well-managed service delivery capability and would offer economies of size.	Would use an existing well-managed service delivery capability and would offer economies of size.
- Fiscal Stability	The cost/revenue balance includes a significant county subsidy. Financing for services in East Palo Alto depends on a continuation of the existing countywide political commitment.	Given the assumed complete transfer of County Service Area 5's existing property tax, a City of East Palo Alto is financially feasible and reasonably stable. Feasibility would not depend on a 2/3 vote approving special taxes but would depend on additional user fees for utilities.	The additional cost to service East Palo is lower than the additional revenues.	The additional cost to service East Palo Alto exceeds the additional revenues.
- Economic Development Potential	The county has the necessary skills and the strongest access to vital credit markets. To date, a strong coordinated action program has not been initiated. As with other issues, East Palo Alto must compete countywide for existing resources and political attention.	With the exception of strong access to credit a properly-staffed City of East Palo Alto would have both the capacity and the commitment to an ambitious, aggressive economic development program.	Menlo Park has the skill, the program experience and the financial resources to carry out an effective economic development program. Resources and commitment would have to be shared with other areas of the city.	Given the fiscal negative cost/revenue balance it would appear to be a more prudent course for Palo Alto to avoid the issue rather than to attempt to cure fiscal imbalance by economic development.



Table II-7 (Continued)

## COMPARISON OF ALTERNATIVES

Standard for Evaluation	Alternative			
	Status Quo	Incorporate	Annex to Menlo Park	Annex to Palo Alto
- Robustness <sup>2),3)</sup>	The county would appear to have the strongest financial capacity to deal with an uncertain future. However, there are significant uncertainties (e.g., a state Medi-Cal cutback with attendant stresses on county general funds) facing county financial planners.	A shortfall in city revenues could be solved only through a cutback in services, an increase in fees for services, approval of special taxes (2/3 vote required) or a successful economic development program.	A shortfall in revenues generated in East Palo Alto could be balanced by a subsidy from the Menlo Park General Fund as well as by the methods available to a new city.	If the initial commitment to annex were made, it is conceivable that a commitment to subsidize unanticipated revenue shortfalls might also be made. Both are unlikely.
Probability of Predicted Outcome Actually Occurring <sup>2)</sup>	It would be relatively easy to continue the existing literal status quo. Success in effectuating a strong economic development program is considerably less certain, as noted above.	If the new city council installs a strong administrative team and adopts aggressive and coordinated economic development practices the probability of a fiscally stable city and a strong economic development program are both high. The new city leadership will have every incentive to focus their efforts and deal forcefully with existing problems in East Palo Alto. Any prediction must be tempered by the fact that neither the membership of a new council nor its policies are known at this time.	The policies of Menlo Park are fairly well known and the stability of city policies over time is well established. Thus this alternative is the most predictable.	Not applicable since Palo Alto's interest in even considering annexation is not well established.

Table II-7 (Continued)

## COMPARISON OF ALTERNATIVES

Standard for Evaluation	Alternative			
	Status Quo	Incorporate	Annex to Menlo Park	Annex to Palo Alto
Consultants' Recommendation	This alternative is recommended as a fall-back if incorporation and annexation both fail. If the alternatives fail for reasons relating to fiscal stability or economic development, the county should be encouraged to implement an aggressive economic development program.	Incorporation is recommended, assuming the full property tax transfer from County Service Area 5 occurs. Given a stable fiscal base, the issues of political identity community of interest and ability to focus skills and resources solely on the problems of East Palo Alto outweigh the advantages of annexation to Menlo Park.	Annexation to Menlo Park is a strong alternative. Depending on the circumstances, it should be pursued if incorporation fails and the perceived reasons for failure cannot be corrected.	This alternative should be dropped from consideration. It offers no advantages beyond those contained in the recommended alternatives. Beyond that, successful implementation is extremely unlikely.

## Notes:

- 1) LAFCO has adopted evaluation standards for governmental reorganization (R-29). The table lists only those standards that were applicable to the situation in East Palo Alto and where there was a difference in performance between the alternatives.
- 2) This standard is not part of LAFCO's adopted policy. It is recommended by the consultants as being applicable to East Palo Alto.
- 3) "Robustness" refers to the ability of the alternative to withstand unforeseen and adverse future fiscal events.

Source: McDonald & Associates.

The first additional evaluation criterion, "robustness", is defined in Table II-7 as a measure of the ability of an alternative to withstand unforeseen and adverse future fiscal events. Given the questions that had been raised about fiscal feasibility of incorporation, it appeared appropriate to compare the ability of the alternatives to withstand adverse changes in the manner in which cities are financed.

The second evaluation criterion that was added considered the probability of the alternative actually being implemented after a sphere of influence had been adopted. This criterion is not equivalent to a policy of espousing a solution because it is expedient or easily done. Nonetheless, if two alternatives had approximately equal merit and one were much more likely to be implemented successfully, considering both administrative details and the workings of the political process, then it would be appropriate to consider this factor. In practice, this criterion served to separate the alternative of annexing East Palo Alto to the City of Palo Alto from the other three alternatives.

Table II-7 ends with the consultants' recommendations. These recommendations are explained in greater detail in Chapter III.



### III. RECOMMENDATIONS

The nature of the public service issues in East Palo Alto are such that logical decisions about spheres of influence for the special districts serving the area tend to be controlled by the basic decision about the primary provider of services. Separate recommendations regarding special districts were prepared for each of the major alternatives:

- status quo
- incorporation
- annexation

The intent was to provide the Commission with recommendations on spheres of influence for the districts that are suitable to the major alternative that is selected by the Commission, whether or not this alternative is the one recommended by the consultants.

#### A. Recommendations for General Government

The comparison of the alternatives completed in Chapter II did not directly produce a clear-cut recommendation; it produced two questions. The first question is whether an effective community development program has more probability of success if East Palo Alto is an incorporated city, compared with the status quo or with annexation to Menlo Park. If the first question is answered "yes", the second question is "does the comparative advantage for economic development outweigh the fiscal efficiencies available through annexation to Menlo Park?"

The consulting team answered both questions affirmatively and recommends that a sphere of influence for a City of East Palo Alto be established. Obviously, some discussion of these conclusions is appropriate.

#### 1. Economic Development

Once the conclusion was reached that public services could be delivered in a fiscally sound manner, either through annexation or incorporation, emphasis was placed on what was considered to be a key question. "Which governmental arrangement is most likely to produce significant economic development in East Palo Alto?" The analysis of relative capacity to accomplish economic development was based on conclusions about trends in financing and decision making in the development industry.

Much of the planning for East Palo Alto that was accomplished in the last ten years was based on the premise that federal funds, such as those available under the Economic Development Administration or Urban Development Action Grant Programs, would finance major public improvements and would facilitate private development. This assumption is no longer realistic. Such public programs as redevelopment law financing and mortgage revenue bond financing will be available, but the primary source of capital for both public and private infrastructure will be the development industry. In fact, the public programs that will dependably remain involve public/private partnerships.

This generalization is increasingly true throughout California. It will be particularly true in an incorporated East Palo Alto. The tax base is barely adequate (as indicated by the present analysis) and has little or no allowance for financing public infrastructure.

Public/private partnership to finance public improvements such as street extensions simply cannot be negotiated unless a situation exists wherein a public decision making body can speak for its constituencies and can make positive binding commitments. The ability both to speak for a constituency and to strike a definitive bargain is at the root of the comparison of the ability of the governmental alternatives to accomplish economic development.

Certain prior investment decisions in East Palo Alto were based on considerations of social conscience. Availability of "social conscience" financing cannot be assured in the future. It must be assumed that new construction or reconstruction in East Palo Alto will be motivated by the normal demands for profit appropriate to the market risk. In addition, investment analysis today must consider an added source of risk and uncertainty beyond the normal market risk. Increasingly, uncertainties arise from the potential findings or the timing of environmental review, from changes in policies regarding the desirability of growth, and from changing requests for partnership financing. These factors have materially added to the risk of development. Accordingly, the marketplace will pay a considerable premium (for example) for a project that has already completed the development review process.

The general conclusion about the value of reduction in uncertainty is particularly applicable to East Palo Alto. As noted previously, the Council can propose conditions or ask for

mitigation measures to solve problems (e.g., avoiding relocation problems), but can only suggest that the county offer offsetting incentives. The actual success of past economic development activities in East Palo Alto has demonstrated convincingly that, at least until there are enough success stories to reverse the present trend, the market area is a difficult one. A developer who must satisfy the concerns of the Municipal Council and then must satisfy the concerns of the county. This hardly produces a reduction in uncertainty.

This perception about division of authority would be entirely reversed if East Palo Alto were an incorporated city. A city council could concentrate exclusively on the concerns of a local constituency, and at the same time could offer binding commitments. The council could establish clear policies for community development, and could interpret these policies with regard to specific development proposals. Authority and responsibility would be clear and unambiguous both as perceived by a developer and as perceived by the citizens of East Palo Alto.

An annexation to Menlo Park would also end the dual roles in project evaluation, but would not produce a situation where the Council represented a single, relatively homogeneous constituency. The objectives of a broader community would have to be considered, and (insofar as public resources were being allocated to the "public" side of a partnership financing arrangement) the demands from other areas of the city would have to be weighed against those of East Palo Alto.

A point in favor of either annexation or the status quo is that the skills and experience of both Menlo Park and the county in economic development activities can be observed rather than merely be the subject of conjecture. It was noted previously that the county contributes very strong management skills and a strong tax base. These same statements could be made about Menlo Park. Prior to incorporation, there can be no guarantee regarding the technical capacity of a new city and its senior management staff. One statement that can be made with certainty is that a City of East Palo Alto would have every opportunity to recruit a staff of the highest quality. Responsibility for city management and for community development will be positions of extreme visibility with very strong career development potential. A City of East Palo Alto would have every opportunity to recruit the full range of skills that will be necessary. Further, as noted previously, incorporation is the single alternative that focuses political accountability on five



council members who will depend for their support solely from citizens of East Palo Alto.

## 2. Governmental Efficiency

The recommendation for incorporation is based on the conclusion that the advantages claimed above for an incorporated city as an agency responsible for economic development outweigh the fiscal efficiencies that would be offered by annexation to Menlo Park. In the absence of the economic development issue, the guidelines available from LAFCo's enabling legislation and from adopted LAFCo policies would suggest that annexation be endorsed. An additional city would not be justified on "home rule" grounds if a more efficient alternative were available and if there were no other issues.

The relative efficiency estimated for the annexation alternative is due in part to what is, in effect, a textbook case of economies of size. Menlo Park's management structure and size are such that it can accommodate a major increment of growth at an incremental cost that is lower than the city wide average. This conclusion was not unexpected given the typical experience of cities in the size range of 25 to 50,000 people. Another reason for the relative advantage should be understood, however. The manner of service delivery that would be offered by Menlo Park differs from the plan for service delivery that was assumed in the fiscal evaluation of an incorporated city. The most significant example was law enforcement where two-person squad cars on evening shifts were assumed for the analysis of incorporation. The policy of Menlo Park is to use one-person squad cars. Thus, the apparent economies offered by Menlo Park must be offset by the fact that the assumed service delivery program after incorporation is very comparable to existing practice in East Palo Alto, and is affordable within the estimated tax base of the new city.

Questions will inevitably be raised about whether the fiscal assumptions regarding incorporation, which assumed an effectively managed city, will actually be implemented in practice. As noted previously, there are no guarantees regarding what a city that does not now exist will actually accomplish. There is also no reason to assume that it will establish a less than average capacity to manage. The recommended city is a full service city (with the exception of fire protection, as discussed subsequently), and carries with it a full measure of political accountability. There will be neither relatively

anonymous directors of special districts nor county supervisors who can be described as remote and uninterested to answer questions about administrative shortcomings. There will be no question about the location of political accountability -- a claim that cannot be made for the annexation alternative.

## B. Conditions and Contingency Plans

The following conditions are essential to the conclusion about financial feasibility of a new city. If these conditions are not acceptable to LAFCo, or if they are not implemented by other participants, such as San Mateo County, then the consultants' recommendation for incorporation would be withdrawn. The recommendation would then be that East Palo Alto be assigned to the sphere of influence of Menlo Park.

### 1. Effective Date of Incorporation

As discussed previously, LAFCo has discretion to set the effective date of incorporation (assuming an April, 1982 election) at any time between mid-April and November 1, 1982. It is recommended that an effective date of July 1 be endorsed to provide the maximum period for East Palo Alto to accumulate first-year operating surplus.

### 2. Capital Improvements Prior to Incorporation

As indicated in Appendix B of the present report, San Mateo County has discussed (subject to negotiation) the possibility of providing of certain major street improvements prior to the date of incorporation. These improvements would cost (depending on the assumptions made about future development plans and, thus, the necessity of the improvements) between \$3.1 and \$6.8 million. The new city does not have the capacity to finance these improvements out of its initial tax base. County financing for the street improvements should be guaranteed before LAFCo approves incorporation.

### 3. Property Tax Transfer

The conclusion about financial feasibility of incorporation grew directly from a revised assumption about property tax transfer that was more favorable to the city. If, for whatever reason, the actual transfer would not be substantially in accord with the estimates used in the present study, the question of feasibility would have to be re-evaluated. It is recommended

that LAFCo define as infeasible a city whose full-service revenues would not be substantially equal to the full-service costs, without regard to the effects of a first year's surplus and without regard to any special taxes that city voters might (or might not) approve by a two-thirds vote.

#### 4. Fire Protection

A detailed analysis of cost of service was not prepared for the Menlo Park Fire Protection District, although cost of service in East Palo Alto was estimated. Considerations regarding effective delivery of service were sufficient to suggest that the district continue to protect East Palo Alto even if it incorporated, rather than establish a separate fire protection capability in the city. Observations and the initial analyses suggest that the cost of service per dwelling unit is higher and revenues are lower in East Palo Alto than is the average for the entire district. Insofar as this is true, a transfer of fire fighting responsibility to a City of East Palo Alto would increase city costs more than it would increase city revenues. A change in the capacity of Menlo Park Fire Protection District to provide the current level of service with the present arrangement for financing could have an adverse effect on the financial feasibility of an incorporated City of East Palo Alto. The incorporation should be reconsidered if there is a change in the tax base of the Menlo Park Fire Protection District.

#### 5. User Fees for Utilities

The financial analysis that indicated financial stability for a City of East Palo Alto was based on the assumptions that:

- After incorporation, water and sanitation would be financed exclusively from user charges and fees, making the existing sanitary and lighting districts' property tax base available for general governmental purposes.
- The user fees would be set high enough to reimburse the City General Fund for the cost of administrative services provided by the city, as well as the direct cost of the utility service. The fee would average approximately \$54 per household per year.

LAFCo does not have the authority to enforce the use of user fees as a precondition for incorporation. Nonetheless, the clear trend throughout California (which was specifically



endorsed in the state legislation that was enacted immediately after the passage of Proposition 13) is to apply user charges and fees in situations where this is feasible and to leave the property tax for general governmental purposes. In this instance, it would be appropriate for LAFCo to assume that a new city council would act to preserve its property tax base for services that cannot be financed through user charges. An appropriate action program for LAFCo would be to publicize as widely as possible the fact that, by approving incorporation, the voters are expressing a willingness to pay for utilities entirely from user charges.

#### 6. Gann Appropriations Limit

The passage of Proposition 4 in November, 1979 established the requirement that local government appropriations from the proceeds of taxes (wherein taxes are identified as being distinct from fees and user charges) cannot exceed a designated limit. This appropriations limit was originally defined in terms of 1978/79 appropriations for agencies then in existence, and has increased since that date only in response to population changes and changes in the Consumer Price Index. Two procedures have been used to establish an appropriations limit for new cities. The recommended procedure is to state an appropriations limit in dollars at the time the incorporation election is approved and to have the voters, in effect, validate the appropriations limit at the time that they act upon incorporation. In the case of recent incorporations where this was not done, it was necessary to seek special legislation that, in effect, defined the appropriations limit in terms of actual revenue collections. This latter procedure is undesirable in the sense that it removes the option for the voters to approve an appropriations limit that provides a "cushion." If the appropriations limit is set in excess of immediate requirements, it is possible to improve the level of service if the tax base improves. (It might be remembered that it was the norm rather than the exception for governments to set their 1978/79 appropriation as high as possible in anticipation of the Gann Initiative, secure in the knowledge that appropriations rather than actual expenditures was the issue). A cushion for East Palo Alto is particularly important since it is expected that a major goal of a new city would be to improve the tax base through community development. While it would be possible to include an appropriations limit equal to the expenditures from taxes shown in the present report, it is recommended that an allowance of approximately 20% in excess

of this amount be included in the ballot measure. This allowance should be discussed with the proponents of incorporation.

## 7. Retirement Benefits

Conditions of incorporation normally include language guaranteeing the employment and pension rights of employees whose functions are assumed by the city. This is an appropriate action particularly after the investigation by LAFCo's staff (Appendix F) confirmed that there are no apparent problems regarding unfunded employee benefits.

## C. Recommendations for Special Districts

The summary of recommendations for each special district that was included in Chapter I is repeated in Table III-1 as a convenience. The recommended disposition of the district is presented for each of the alternatives, rather than only for the incorporation alternative that is recommended by the consultants.

### 1. San Mateo County

The formal responsibilities of a county after a municipal incorporation or annexation are defined by statute. In the case of an incorporation (as noted previously), the county would continue to provide basic services for the remainder of the fiscal year and would have no further responsibilities after that point. The county would not be required to continue to provide "augmented services" which in the present case includes the sheriffs' protection financed from County Service Area 5. Transfer of responsibility after annexation is subject to the negotiations that take place when a property tax base transfer is negotiated.

While the county's obligations are clear, LAFCo could certainly encourage the county to continue to provide a wide range of voluntary services to a new city of East Palo Alto. One important example was recently demonstrated during municipal incorporations in San Diego County. In at least two instances, the county's Office of Intergovernmental and Public Affairs provided a senior and experienced public administrator who acted as an interim city manager until the search for a permanent city manager could be completed. Actions taken immediately after incorporations to assure that a new city starts collecting all manner of revenues as quickly as possible are extremely

Table III-1

STATUS OF EXISTING AGENCIES FOR EACH  
REORGANIZATION ALTERNATIVE

<u>Agency</u>	<u>Status Quo</u>	<u>LAPCo Action</u>		
		<u>Incorporation of East Palo Alto</u>	<u>Annexation to Menlo Park</u>	<u>Annexation to Palo Alto</u>
San Mateo County	Continues to provide service	Responsibility for municipal service transferred - partial property tax revenue transfer	Responsibility for municipal services transferred - partial property tax revenue transfer	Reduced county boundary. Service responsibility transferred - property tax transferred (note: school district boundary change should be considered)
County Library	Continues to provide service	Continues to provide service	Service responsibility transferred - property tax transferred	Service responsibility transferred - property tax transferred
County Service Area 5	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated
East Palo Alto County Waterwork District	Continues to provide service	Service responsibility transferred - jurisdiction eliminated	Service responsibility transferred - jurisdiction eliminated	Service responsibility transferred - jurisdiction eliminated
East Palo Alto Municipal Council	Continues to provide service	Function absorbed by city	Function absorbed by city	Function absorbed by city
East Palo Alto Sanitary District	Included in Menlo Park Sanitary District sphere of influence - absorbed ultimately	Service responsibility transferred - property tax transferred - jurisdiction eliminated. City should consider contracting with Menlo Park Sanitary District.	Included in Menlo Park Sanitary District sphere of influence - absorbed ultimately	Service responsibility transferred - property tax transferred - jurisdiction eliminated
East Palo Alto and Palo Alto Gardens Drainage Maintenance Districts	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated
Menlo Park Fire Protection District	Continues to provide service	Continues to provide service	Continues to provide service	Service responsibility transferred - property tax transferred - boundaries reduced



Table III-1 (Continued)

STATUS OF EXISTING AGENCIES FOR EACH  
REORGANIZATION ALTERNATIVE

<u>Agency</u>	<u>Status Quo</u>	<u>LAFCo Action</u>		
		<u>Incorporation of East Palo Alto</u>	<u>Annexation to Menlo Park</u>	<u>Annexation to Palo Alto</u>
Menlo Park Sanitary District	Continues to provide service	Continues to provide service	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction reduced
Private Water Companies	Continues to provide service	Continues to provide service	Continues to provide service	Continues to provide service
Ravenswood Highway Lighting District	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated
Ravenswood Recreation and Park District	Continues to provide service	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated	Service responsibility transferred - property tax transferred - jurisdiction eliminated

Note: Other agencies in the County would continue to provide service under all alternatives with the exception of the annexation to Palo Alto. Annexation to Palo Alto requires a County boundary change and a transfer of service responsibility. The agencies that might be affected include: Ravenswood Elementary, Sequoia High School District, Mid-Peninsula Open Space District, County Harbor District, and the Mosquito Abatement District. The levies for school equalization aid and County education tax would be transferred.

Source: McDonald & Associates.

important to the ability to establish a first-year surplus. It would be of great benefit to a new city if San Mateo County would provide an equivalent service. LAFCo might suggest this as a part of the deliberations about incorporation.

## 2. County Service Area 5

As a matter of law, a County Service Area is dissolved on the effective date of many of the alternatives (R-17). As a practical matter, the functions of County Service Area 5 would very probably be continued during the first year after incorporation. The formal mechanism would be for the new city to contract with the county (and to use the Area's property tax to pay the county) for the augmented services now being financed by County Service Area 5. Although the Sheriff is required to provide basic services until the start of the next fiscal year after incorporation, there is no obligation to provide augmented service without additional payment.

## 3. County Library

The services provided by the county library would continue under the status quo, incorporation and the annexation alternatives. The existence of a well developed and staffed library in East Palo Alto is assumed in all four alternatives. A transfer of facilities, staff and property tax base would be required in the case of the annexation alternatives. The fiscal analysis did not include any repayment for prior county investment in the library facilities.

## 4. East Palo Alto County Waterworks District

The sphere of influence of the county waterworks district would be eliminated under all of the alternatives except the status quo. Water service should be a municipal responsibility primarily to permit user fees to pay for an appropriate portion of the cost of administering the water delivery function.

## 5. East Palo Alto Sanitary District

The East Palo Alto Sanitary District is an anomaly. The District is an ideal candidate for consolidation to eliminate overlapping functions and improve operations, although its atypical staffing pattern and methods of operation permit it to function quite economically. It is recommended that, under the status quo and annexation to Menlo Park alternatives, the district be

placed in the sphere of influence of the Menlo Park Sanitary District with the thought that it would ultimately be absorbed at a time when it is no longer able to operate as efficiently as it now operates.

If incorporation is approved, it is recommended that the East Palo Alto Sanitary District be eliminated and that its functions be assumed by the city. This recommendation is based solely on fiscal considerations rather than considerations of optimal public services delivery. The preferred alternative from a public services standpoint would be to annex the entire area to the Menlo Park Sanitary District, but this would prevent a transfer of the East Palo Alto Sanitary District's property tax base to the new city. Fiscal feasibility of the new city depends on the property tax transfer and use of sewer utility user fees, at least for the short term.

#### 6. Drainage and Flood Control Agencies

It is recommended that the sphere of influence of the Palo Alto Gardens and East Palo Alto Drainage Maintenance Districts be eliminated and that these functions be assumed by the appropriate city, under all alternatives other than the status quo.

#### 7. Menlo Park Fire Protection District

As discussed previously, continuation of services from the Menlo Park Fire Protection District is considered to be essential to the short and mid range financial future of a city of East Palo Alto. No change in sphere of influence is recommended. Table III-1 indicates a transfer of responsibility for fire protection if annexation to Palo Alto should ever occur. This issue was not considered in any detail.

#### 8. Menlo Park Sanitary District

Issues affecting the Menlo Park Sanitary District were included in the discussion of the East Palo Alto Sanitary District. It would be entirely appropriate for a City of East Palo Alto ultimately to contract with the Menlo Park Sanitary District for some or all of its sewer maintenance functions.

#### 9. Mutual Water Companies

There were no overwhelming issues identified during the present project, or previously, that suggests a change in status of the



mutual water companies. If problems emerge, the responsible water agency could request a change in sphere of influence and respond to the problems.

10. Ravenswood Highway Lighting District

The responsibilities of street lighting should be assumed by the appropriate municipality, under all but the status quo alternative.

11. Ravenswood Recreation and Park District

The sphere of influence of the district should be eliminated. It is recommended that LAFCo identify recreation services as a serious public service problem, whatever overall recommendation is endorsed.



## APPENDICES

- Appendix A - Notes on the Status Quo
- Appendix B - Incorporation of East Palo Alto
- Appendix C - Annexation to the City of Menlo Park
- Appendix D - Annexation to the City of Palo Alto
- Appendix E - Jurisdiction Consolidation Issues  
and Recommendations
- Appendix F - Summary of Personnel/Retirement  
Issues





APPENDIX A  
NOTES ON THE STATUS QUO





## I. GOVERNMENT SERVICES

### A. County-Provided Municipal Services

San Mateo County is responsible for delivering municipal-type services in East Palo Alto, other than those that are provided by special districts. The East Palo Alto Municipal Advisory Council was authorized by the San Mateo County Board of Supervisors on July 5, 1967. The Council's five members are elected at large with each Council member residing in one of five districts. The Council is advisory to the Board of Supervisors and has functioned as a strong focal point on issues relating to land use development and governmental services. The Municipal Council has been extremely active in the attempts to incorporate East Palo Alto as a city.

The county sheriff provides police patrolling as well as investigative services. The California Highway Patrol is responsible for traffic safety and traffic law enforcement. County Service Area 5 was established to provide an urban level of law enforcement prior to the passage of Proposition 13 as well as to provide a vehicle for financing garbage collection by a private operator. The current county practice is to fund half of the cost of the sheriff services from the County Service Area 5 property tax base and half from the county general fund.

The County Public Works Department is responsible for construction and maintenance of county streets in the area and has the responsibility for the two drainage maintenance districts in East Palo Alto.

While East Palo Alto Municipal Council and its in-house planning staff provide important input, the ultimate authority for planning, zoning, and building regulation lies with the San Mateo County's Department of Environmental Services. The Department, working with the Municipal Council, is in the process of adopting a detailed Community Plan for East Palo Alto.

The San Mateo County Library provides library services in East Palo Alto from a modern library located centrally in the area.

Of some importance, the county's responsibilities for East Palo Alto mean that the overall management capabilities of the county are available to be focused on local issues. The administrative effort devoted by senior county management to issues in East Palo Alto is significantly above that required in many other

areas in the county. The skills of senior county administrators are available to the East Palo Alto community in areas ranging from sophisticated financing techniques to monitoring and providing input to the legislative process in Sacramento.

B. Fire Protection

An urban level of fire protection services is provided to East Palo Alto by the Menlo Park Fire Protection District. The service of this agency also includes the cities of Menlo Park and Atherton and a portion of the City of Redwood City. A brief investigation of the patterns of demand for service, compared to the tax base of the areas within the districts suggest that East Palo Alto is receiving a relatively high level of service per dollar of revenue generated.

C. Parks and Recreation

While East Palo Alto is part of the Mid-Peninsula Open Space District, the agency with responsibility for the primary recreation program is the Ravenswood Recreation and Parks District. This district, which is generally coterminous with the boundaries of County Service Area 5, maintains a total of three local parks, including Martin Luther King Field which is owned by the Sanitary District and leased for Little League activities. The principal recreation center is the Ravenswood Center Park which contains a swimming pool, a gymnasium, a social center, and meeting rooms.

The facilities at Ravenswood Center Park have suffered from lack of maintenance, to the point that the swimming pool is inoperable. Interviews with District officials indicate that more than one-half million dollars would be required to rehabilitate the facilities.

The primary emphasis in the recreation program is on special events. Although it was not possible to obtain detailed program descriptions or participation statistics during the present project, interviews and observation indicate that the ongoing recreation program is minimal by contemporary standards for California.

Discussions with Menlo Park officials confirmed that East Palo Alto residents frequently participate in the extensive range of programs offered by the recreation center in the Belle Haven area of Menlo Park.

#### D. Water Supply and Waste Treatment

The water supply in East Palo Alto is provided by the East Palo Alto County Waterworks District and by the Palo Alto Park and O'Connor Tract Mutual Water companies. Water supply is financed from user charges and fees. The district is drilling additional wells to reduce the amount of water purchased from San Francisco's Hetch Hetchy Aquaduct, but, in any case, water supply could be obtained to support an expanded population in East Palo Alto. Responsibility for sewage collection and disposal in East Palo Alto is defined by natural drainage areas. The East Palo Alto Sanitary District provides service to the greater portion of the area (with 3,385 connections) and contracts with the city of Palo Alto for treatment and discharge of sewage. The district adopted a capital improvements program that deals with improvements to reduce infiltration of ground water and the possible exfiltration of sewage.

The remainder of East Palo Alto is served by the Menlo Park Sanitary District, a major wastewater treatment and collection agency with over 14,000 connections.

#### E. Street Lighting

The Ravenswood Lighting District, a county-governed agency, is responsible for providing street lighting for services accomplished by contract with Pacific Gas and Electric Company. Adequacy of street lighting and prevention/repair after vandalism have been identified as important issues in the community.



## II. COMMUNITY DEVELOPMENT ISSUES

Some of the problems and issues that are cited by the supporters of incorporation are typical of most incorporation movements in California. These include:

- a strong desire for local control of key public services
- a feeling that county government is remote and unresponsive to local issues
- a defensive posture regarding annexation by an adjoining city.

The issue that is somewhat unique to East Palo Alto is that of community development. Local land use issues are often a motivating force for incorporation, but in East Palo Alto the concerns focus on strengthening the local tax base and providing employment opportunity rather than focusing on more amorphous concerns such as "preserving the quality of our community."

The list of references accompanying the present report confirms that planning and development issues in East Palo Alto have been studied repeatedly over a long period of time. Yet, little progress has been made in either strengthening the tax base of the area or providing employment opportunities. A number of studies, including the forthcoming Community Plan, have documented the locational advantages and development opportunities that could exist in East Palo Alto, but these opportunities have largely gone unrealized.

A number of reasons could be cited for the lack of success in bringing about economic development in East Palo Alto including the current decline in the development industry because of the high cost of borrowing. The issue that is most relevant to consideration of governmental alternatives is that of fragmentation of authority.

Private investments may be motivated in part by social issues but profitability and returns appropriate to the risk of loss must be available. An investor or developer who evaluates East Palo Alto will recognize risks and uncertainties significantly beyond the normal market situation. Not only is there a history of economic decline, but the decision making situation is extremely unsatisfactory from the viewpoint of a potential investor or developer. The local community can express a strong voice on land use and development issues acting through the East Palo Alto Municipal Council. Nonetheless, since the Council

is an advisory body rather than a decision making body, it cannot offer counterbalancing assurances on other issues. Ultimate approvals must be obtained through the county. The result is that from the private sector viewpoint there are two entities that can effectively say "no" to a project, but only one that can say "yes." The decision making situation, coupled with the basic market risks in East Palo Alto, creates a strong deterrent to innovative development projects.





APPENDIX B  
INCORPORATION OF EAST PALO ALTO



The analysis of the feasibility of incorporation has been an evolutionary document. The sequence began in 1979 when Angus McDonald & Associates produced a feasibility study (R-1). Important additions and corrections to this original study were prepared by the staff of the East Palo Alto Municipal Council (R-14). The staff analysis then provided the basis for comments by SRI International (R-35). Finally, a series of meetings were convened by San Mateo County to attempt to create a consensus on a set of facts that could be used during discussions of alternatives. When it became increasingly apparent that a debate was focusing on facts and figures that were two years out of date, an update was prepared (R-15) for review and discussion among the participants. That update was revised again as part of the present report to reflect passage of the 1981 major municipal finance legislation (Senate Bill 201), and to incorporate an assumption about transfer of property tax from County Service Area 5 to a new city that was more favorable than the assumption used in prior studies.

A memorandum is attached to the present version of the fiscal analysis that lists the changes to the April edition (i.e., R-15).



MEMORANDUM

April 27, 1981  
(Revised June 26, 1981)

TO: : East Palo Alto Fiscal Task Force

FROM : Angus McDonald  
McDonald & Associates

Gordon Shriver  
San Mateo County Department of General Services

SUBJECT : Update of East Palo Alto Incorporation Feasibility  
Study

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81-834

## I. INTRODUCTION AND SUMMARY

### A. Scope and Purpose

The original fiscal study regarding establishment of a City of East Palo Alto (R-1),\* the staff analyses (R-10) and the analyses by SRI International (R-10) all used 1979 as a base year and expressed costs and revenues in July 1, 1979 dollars. The following analysis updates the 1979 work, using the latest available data and assumptions.

The present analysis deals separately with costs funded from proceeds of taxes. It is assumed that all enterprise-type activities (garbage collection, sanitation, water, etc.) will be funded by user fees and that fees will exactly equal direct costs plus administrative costs.

### B. Summary of Findings

Tables 1 through 3 summarize the results of the analysis. The assumptions used in the analysis and the distinctions between the present update and the previous studies are documented in Section II.

### C. Conclusions

Given the assumptions, particularly regarding approval of special taxes and administrative cost recovery from the Road and Utility funds, a City of East Palo Alto would generate a significant revenue surplus. Without the special taxes, the city would be in approximately a break-even situation after five years. No assumptions were made that the city's tax base would improve over the first five years. If any of the higher-density uses analyzed in (R-5) occur, the fiscal situation would improve further.

An additional implication of the assumptions should be understood. A total annual charge of \$186,000 was transferred to the General Fund from the various enterprise funds and \$80,000 was transferred from the Road Fund to reflect the value of administrative services provided by the city administration.

The fees paid by the citizens of East Palo Alto are assumed to be high enough to reimburse the General Fund for the transferred utility costs.

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\* Underscored numbers in parentheses refer to the references listed at the end of this memorandum.

Table 1

CITY EXPENDITURES  
(In thousands)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
<u>EXPENDITURES FROM PROCEEDS OF TAXES</u>					
<u>General Fund</u>					
General Government	216	367	367	367	367
Police Protection	0	1,399	1,399	1,399	1,399
Community Development	0	198	198	198	198
Community Services	0	215	215	215	215
Animal Control	0	11	11	11	11
Public Works Administration	0	189	189	189	189
Civil Defense	0	4	4	4	4
Fixed Assets	385	-	-	-	-
Sub-Total	601	2,383	2,383	2,383	2,383
<u>Road Fund</u>					
Street Maintenance and Engineering	0	122	122	122	122
Total Expenditures from Proceeds of Taxes	601	2,505	2,505	2,505	2,505
<u>EXPENDITURES FROM SERVICE CHARGES AND BENEFIT ASESMENTS</u>					
Street Sweeping	20	20	20	20	20
Street Lighting	143	143	143	143	143
Garbage Collection	261	261	261	261	261
Water Service	385	385	385	385	385
Sanitary Service	269	269	269	269	269
Total Enterprise Activities	1,078	1,078	1,078	1,078	1,078
Total City Expenditures	1,679	3,583	3,583	3,583	3,583

## Notes:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.
- 2) Figures do not include interfund transfers.



Table 2

CITY REVENUES  
(In thousands)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
<u>General Fund Revenues</u>					
Property Tax	167	1,012	1,024	1,038	1,052
Sales Tax	106	141	141	141	141
Licenses and Permits	0	48	48	48	48
Property Transfer Tax	16	16	17	17	17
Uses of Money and Property	41	94	126	165	211
Cigarette Tax	39	44	44	44	44
Vehicle In-Lieu Tax	390	390	390	390	390
Service Fee	0	1	1	1	1
Federal General Revenue					
Sharing	176	234	234	234	234
Franchise Fee	12	12	12	12	12
<u>Voter-Approved Special Taxes<sup>2)</sup></u>					
Business License Tax	19	23	23	23	23
Utility Users Tax	213	260	265	271	276
<u>Dedicated Revenues</u>					
Vehicle Code Fines and Penalties	41	50	50	50	50
Police Community Relations Grant (AB-90)	50	50	50	50	50
TOTAL	<u>1,270</u>	<u>2,375</u>	<u>2,425</u>	<u>2,484</u>	<u>2,549</u>
<u>Road/Utility Fund Revenues</u>					
Service Charge/Benefit Assessments	1,141	1,264	1,264	1,264	1,264
Gas Tax Interest	11	20	16	10	2
Gas Tax	174	158	144	131	119
Road/Utility Fund Total	<u>1,326</u>	<u>1,442</u>	<u>1,424</u>	<u>1,405</u>	<u>1,385</u>
TOTAL CITY REVENUES	<u>2,596</u>	<u>3,817</u>	<u>3,849</u>	<u>3,889</u>	<u>3,934</u>

## Notes:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.
- 2) These taxes would require 2/3 voter approval.

Table 3

FUND BALANCES  
(In thousands)

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
<u>Starting Fund Balance (July 1)</u>					
General Fund	0	669	927	1,235	1,602
Road Fund	0	185	161	119	58
Utility Funds	0	63	63	63	63
<u>Annual Fund Balance Change</u>					
General Fund					
Revenues	1,270	2,375	2,425	2,484	2,549
Expenditures	601	2,383	2,383	2,383	2,383
Interfund Transfers	0	266	266	266	266
Net Annual Change	669	258	308	367	432
Road Fund					
Revenues	185	178	160	141	121
Expenditures	0	122	122	122	122
Interfund Tranfers	0	(80)	(80)	(80)	(80)
Net Annual Change	185	(24)	(42)	(61)	(81)
Utility Funds					
Revenues	1,141	1,264	1,264	1,264	1,264
Expenditures	1,078	1,078	1,078	1,078	1,078
Interfund Transfers	0	(186)	(186)	(186)	(186)
Net Annual Change	63	0	0	0	0
<u>Year End Fund Balance (June 30)</u>					
General Fund	669	927	1,235	1,602	2,034
Road Fund	185	161	119	58	(23)
Utility Funds	63	63	63	63	63
TOTAL	917	1,151	1,417	1,723	2,074

## Note:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.

## II. SUMMARY OF ASSUMPTIONS

### A. General Assumptions

#### 1. Assumed Population and Development Pattern

The analysis considers only the existing "baseline" level of population and development. Any changes of the type described in the fiscal analysis of the proposed Community Plan (R-5) would be in addition to the baseline case.

#### 2. Included Revenues and Costs

The analysis deals separately with "tax" revenues, and expenditures that are appropriated from "proceeds of taxes". It is assumed that all enterprise-type services that realistically can be funded from assessments, fees and user charges will be funded from these sources. It is further assumed that revenues for enterprise-type services will equal direct costs plus administrative costs.

In that regard, it is assumed that the responsibilities of the East Palo Alto Sanitary District are assumed by the new city. The functions of the District are supported by user fees exclusively. The existing District tax rate is made available to the new city's General Fund. The tax base and responsibilities of the Ravenswood Recreation and Park District and the Ravenswood Highway Lighting District are also assumed to be transferred to the new city.

#### 3. Operating Costs

Personnel costs and other operating costs were escalated from the July 11, 1979 base point of the original study (R-1) to a new base point of July 1, 1981, the starting point of the 1981/82 fiscal year. The assumed rate of increase was 9% per year based on San Mateo County's experience.

The personnel cost saving of 3.9% because of turnover, as recommended in the Staff Report (R-4), is applied throughout the analysis.

#### 4. Operating Revenues

Revenues were estimated in dollars appropriate for the 1981/82 fiscal year.



## 5. Population Compared to Voter Registration

State law requires that the population estimate for purposes of state apportionment of various revenues (e.g. the motor vehicle in-lieu fee) to a new city be based on number of registered voters multiplied by 3. This procedure continues until the results of a census are available. At the time of the original study this procedure put East Palo Alto at a disadvantage. Since then voter registration per capita has increased. Registered voters times 3 produces a "population" estimate of 20,091 while the 1980 U.S. Census counted 18,031 residents. The population estimate based on voter registration was used for all estimates of state-apportioned revenues.

A City of East Palo Alto would very probably continue to enjoy the present advantage through 1990/91.

In addition, the calculation of population for purposes of apportioning state revenues is based on the number of registered voters as of the date of incorporation. Continued success in registering voters between now and the date of an actual incorporation would produce significant additional revenues. Every voter added produces approximately \$90 in additional state revenues.

## 6. Date of Incorporation

For purposes of analysis, it is assumed that incorporation occurs on July 1, 1982. It is assumed that the County continues to provide all public services that it now provides, during the 1982/83 fiscal year. This includes the services now provided by the Municipal Council. The first year city budget includes funds for a full-time City Manager who would negotiate and administer initial ordinances. The Manager would be responsible for negotiations regarding local tax collecting and grant applications. The Manager would receive administrative and clerical support from the Municipal Council. The (contract) City Attorney is appointed immediately. Other city staff members are appointed at various times during the first fiscal year, to assure an efficient transition.

7. Capital Improvements Completed Prior to Incorporation

It is assumed that the following capital improvements are financed by the County or by development fees before incorporation takes place.

<u>Project</u>	<u>Cost</u> (July 1, 1981 dollars)
Newbridge Street and Bay Road	\$2,000,000
Bay Road - Pulgas Avenue to Cooley Landing	3,760,000
Miscellaneous Streets	420,000
Palo Alto Park Area	<u>710,000</u>
	\$6,890,000

B. Assumptions about Annual Expenditures

<u>Item</u>	<u>Source</u>
1. <u>General Government</u>	Staff Report (R-4), (also used in SRI Report (R-10) except that one-half of the cost of the Accountant Clerk is excluded. It is assumed that this cost is recovered from garbage collection fees.
2. <u>Police Protection</u>	Staff Report (R-4) (also used in SRI Report (R-10)).
3. <u>Community Development</u>	Staff Report (R-4) (also used in SRI Report (R-10)). It was <u>not</u> assumed that the cost of these basic services would be offset, in part, by fees. Fees and charges would be appropriate for growth-related community development services, however.

4. Community Services Staff Report (R-4) (also used in SRI Report (R-10)).
5. Street Maintenance & Engineering Staff Report (R-4) (also used in SRI Report (R-10)).
6. Animal and Civil Defense Original Study (R-1). The assumptions were unchanged in the later studies.
7. Fixed Assets Previous staff estimate, escalated at 9% per year. Excludes fixed assets for enterprise activities (e.g. the computer for water billing). Does not include the 15% contingency.
8. Enterprise-type Activities Staff Report (R-4) (also used in SRI Report (R-10)).

C. Assumptions About Annual Revenues

<u>Item</u>	<u>Source</u>
1. <u>Property Tax</u>	Updated, based on an estimate of 1980/81 county and district costs. The existing tax base of the East Palo Alto Sanitary District is assumed to be transferred to the city in 1982/83. The tax base, costs, and obligations of the Ravenswood Recreation and Park District are transferred at the start of 1983/84. It is assumed that the tax base of CSA5 in 1982/83 is used to finance augmented service above the "basic county service level."
2. <u>Sales Tax</u>	Updated, based on a revised survey of taxable retail sales in East Palo Alto, prepared by the State Board of Equalization ( <u>R-2</u> ). No allowance is



made for improved taxable retail sales per capita. Allowance was made for the loss of revenues during the first quarter after incorporation because of the State's distribution procedure for newly incorporated cities.

3, Licenses and Permits

The original \$40,000/yr. estimate was used in all three studies.

4. Property Transfer Tax

Original Study (R-1). The assumptions were unchanged in the later studies. The property transfer rate today in San Mateo County and the rate at which buyers were assuming the seller's Deed of Trust would produce a lower total tax than would the assumptions used in the calculation. It is assumed that the real estate market will more closely resemble historical precedent by July 1982.

5. Uses of Money and Property

Calculated on the basis of 12% earned on the average fund balance.

6. Cigarette Tax

Updated, based on a revised estimate by the State Board of Equalization (R-2). Allowance was made for the allocation procedure used during the first 8 months after incorporation, because of the State's distribution procedure for newly incorporated cities.

7. Liquor License Fee

Updated based on the revised number of licenses.

8. Vehicle In-Lieu Tax

Updated, based on a revised estimate by the State Board of Equalization (R-2). The State Board estimate,

which was for 1981/82 was adjusted downward slightly, since that year includes a one-time result of improved collection procedures by the California Department of Motor Vehicles.

9. Federal General  
Revenue Sharing

Updated, based on a comparison of Federal Entitlement Periods 11 and 12 for San Mateo County. The per capita revenue assumption from the original study was retained but it was no longer assumed that East Palo Alto's relative tax effort would increase. An allowance was made for the fact that the new city would not become eligible until the start of the next Federal entitlement period.

10. Business  
License Tax

The approach from the original study, which calculated this task as a percent of the retail sales tax, was used again. The reduced retail sales estimate affected this tax, as well. An allowance was made in the first year for time to enact appropriate ordinances and begin collecting the tax.

11. Utility Users  
Tax

The energy costs assumed in the original study were updated. It was assumed that the price of energy would continue to increase 2%/yr. faster than the average inflation rate. An allowance was made in the first year for time to enact appropriate ordinances and begin collecting the tax.

12. Vehicle Code  
Fines and  
Penalties

Original study (R-1). The assumptions were unchanged in the later

studies. It is assumed that no parking violation fines will be collected the first year.

13. Gas Tax

Updated estimates from the State Board of Equalization (R-2). The actual purchasing power of the gas tax declines each year because neither the tax rate nor the based gallons sold increases with inflation. A real decline of 10%/yr. was assumed.

14. Police Services  
Grant (AB-90)

A continuing grant of \$50,000/yr. was assumed. While the AB-90 program, per se, "sunsets" after 1982/83, it is entirely realistic to assume that it, or a comparable program, will be extended. A City of East Palo Alto would be a strong competitor for available funds. (This revenue was shown as a "general fund" revenue as an analytic convenience when calculating fund balances.)

## REFERENCES

1. Angus McDonald & Associates, Inc. East Palo Alto Fiscal Analysis. Prepared for the Association of Bay Area Governments in Cooperation with the East Palo Alto Municipal Council. Berkeley: October, 1979.
2. California State Board of Equalization. Forecast of Local Revenues, East Palo Alto, San Mateo County, by Richard B. West, Statistical Research and Consulting Division. Prepared for San Mateo County Local Agency Formation Commission. Sacramento: March 31, 1981.
3. California State Controller. Estimates of State-Appportioned Local Revenues 1980/81. Letter to all City Councils and County Boards of Supervisors. Sacramento: February 27, 1981.
4. East Palo Alto Municipal Council. Staff Analysis: East Palo Alto Fiscal Analysis, by Kenneth G. Goode, Administrative Officer. East Palo Alto: January 15, 1981.
5. Recht Hausrath & Associates. Economic and Fiscal Impact Analysis of the East Palo Alto Community Plan. Draft. Prepared for San Mateo County. San Mateo: March, 1981.
6. Revenue Sharing Advisory Service. Revenue Sharing Handbook. Second Edition (with updates). Wasington, D.C.: Undated.
7. San Mateo County. 1980-81 Final Budget. Redwood City: Undated.
8. San Mateo County Controller. 1980-81 Tax Apportionment Calendar. Redwood City: Undated.
9. San Mateo County Department of Public Works. Capital Improvement Program 1979-80 Through 1983-84. Redwood City: June 28, 1979.
10. SRI International. Report Supporting Application for Incorporation Election in East Palo Alto, by Phillip E. Vincent and Thomas W. Fletcher. Prepared for Institute for the Study of Community Economic Development, East Palo Alto, California. Menlo Park: March 17, 1981.



MEMORANDUM

June 26, 1981

To : East Palo Alto Fiscal Task Force

FROM : Angus N. McDonald  
McDonald & Associates

SUBJECT : Revisions to April 27, 1981 Update

The following revisions were made to the "Update of East Palo Alto Incorporation Feasibility Study" when it was included in the San Mateo Local Agency Formation Commission's spheres of influence study. The revisions reflect the terms of Senate Bill 102, the primary 1981 legislative change affecting municipal finance, and the changes discussed at the May 7, 1981 meeting.

The changes also reflect a legal opinion that was requested after the previous update. In the previous fiscal studies, cost of police protection by the Sheriff was treated as a county cost. After inquiring, we were advised that County Service Area 5 could be treated in the same manner as a special district for purposes of calculating the property tax transfer to a new city. This change materially improves the tax base of the city. In my opinion, the city would be financially feasible, if the revised assumptions about property tax transfer are actually implemented. In fact, an analysis of fund balances without special taxes (comparable to Table 3 of the April 27, 1981 memorandum) was included in the spheres of influence study. The city would be in approximately a break-even position after five years with no assumed improvement to the base.

The text of the revision to the April 27, 1981 memorandum reflects the improved financial condition of the proposed city. Other changes are listed below.

---

1) San Mateo County District Attorney. East Palo Alto Spheres of Influence and Entitlement to Property Tax Revenues. Memorandum to B. Sherman Coffman from L. M. Summey, Assistant District Attorney. Redwood City: June 30, 1981.

Page

Change

2

The text reflects the fact that fund balances are now estimated to be substantial, given the assumptions. It was also noted that higher density land uses occurring in the future could improve the fiscal situation.

5

a) The property tax revenue estimate was revised to reflect the fact that County Service Area 5 could be treated as a special district, for the purposes of the property tax transfer calculation described in Section 54790.3 of the Government Code. See Table 1 for the details of the estimate.

b) A portion of the property tax revenue for 1982/83 was eliminated. Discussions with managers of recently-incorporated cities led to further research and review of statute. Tax rate areas for a new city become effective on January 1 following the date of incorporation. The city receives property tax for the fiscal year starting after January 1. In the case of East Palo Alto (assuming a July 1, 1982 incorporation) the city tax rate areas would be established as of January 1, 1983 and the city would receive property tax revenues in the 1983/84 fiscal year. Actual cash flow would be delayed until late November, 1983.

In practice it is possible to improve this first-year situation by continuing the independent existence of the special districts after July 1, 1982. The districts could receive their 1981/82 entitlements to property tax revenues. If the city assumes responsibility for district operations later in the fiscal year, it could receive the districts' property tax.

c) The estimate of revenues from uses of money and property was revised to reflect the fund balances that resulted after other changes in Table 2 had been made.

Table 1

ESTIMATE OF PROPERTY TAX TRANSFER  
(Based on 1980/81 Fiscal Year)<sup>1)</sup>

	County	County Service Area 5	East Palo Alto Sanitary District	Ravenswood Highway Lighting District	Ravenswood Recreation and Park District
Property Tax Revenues (1980/81) <sup>2)</sup>	\$ 47,332,803	\$429,137	\$ 98,261	\$ 66,935	\$153,437
Total Revenue Available for General Purposes (1980/81) <sup>3)</sup>	176,075,385	659,393	873,303	109,306	232,583
Property Tax as Percent of Total	26.9%	65.1%	11.3%	61.2%	66.0%
SERVICE COSTS THAT ARE TRANSFERRED (1980/81 AMOUNTS)					
Police Protection	627,393	502,393			
East Palo Alto Municipal Council	237,870				
Planning and Building Inspection	22,020				
Civil Defense	3,815				
Animal Control	5,450				
Garbage Collection		157,000			
Street Lighting				109,306	
Sanitary Sewer Service			873,303		
Parks and Recreation					232,583
TOTAL	\$896,548	\$659,393	\$873,303	\$109,306	\$232,583
Property Tax Transferred <sup>4)</sup>	\$241,011	\$429,137	\$98,261	\$66,935	\$153,437
TOTAL					\$988,781

Notes:

- 1) Assuming the official property tax transfer calculation is done by LAFCo in the summer or fall of 1982, 1980/81 will be the "prior fiscal year" for purposes of the calculation specified in Government Code Section 54790.3 (b) (1).
- 2) Includes collections for prior years and homeowners and business inventory property tax relief. In the case of districts, the figure shown is the amount collected for the district, without regard to transfers to or from the Special District Augmentation Fund. This latter figure was supplied by the County Controller's office.
- 3) Includes fund balances available.
- 4) Equal to total costs multiplied by the percent of total costs financed from property taxes.
- 5) The analyses omits the approximately \$4,000 in property tax that would be transferred from Palo Alto Gardens and East Palo Alto Drainage Maintenance Districts.

Source: McDonald & Associates.

Page

Change

5 (Cont'd)

d) Liquor license fees, Highway Carriers Uniform Business Tax and Financial Aid to Local Agencies were eliminated, by Senate Bill 102. While Senate Bill 102 affects motor vehicle in-lieu fees for existing cities, it does not affect in-lieu fees for new cities.

e) The utility service charge for 1982/83 was lowered to reflect the fact that the new city would not actually be providing administrative support that year, as discussed at the May 7, 1981 Task Force meeting.

6

The fund balances in Table 3 were revised to reflect the changes in Table 2.

7

The text was revised to clarify the fact that the Ravenswood Highway Lighting District was transferred to the new city.

8

a) It was assumed that there would be no mid-decade U.S. census and thus no mandatory elimination of East Palo Alto's advantage in having state-apportioned revenue allocations based on three times the number of registered voters, rather than actual population. This assumption was based on facts contained in a letter from Thomas W. Fletcher to Jay Gellert, dated May 14, 1981.

b) An estimate of the increase in revenues resulting from each added voter was provided, as requested at the May 7, 1981 Task Force meeting.

10

The description of property tax revenue reflects the revised assumption regarding County Service Area 5.

11

The wording regarding cigarette tax collection during the first 8-months was changed, at the suggestion of the staff of the State Board of Equalization.

12

The tax on use of gas and electricity is more correctly titled a "Utility Users Tax."



APPENDIX C

ANNEXATION TO THE CITY OF MENLO PARK



## I. INTRODUCTION AND SUMMARY

The following analysis considers the public service impact of annexing East Palo Alto to the City of Menlo Park. Table C-1 shows that annexation of East Palo Alto would increase the city's population by 69 percent and that, once annexed, the East Palo Alto portion of the expanded city would represent 41 percent of the total city population. Obviously, the city services capacity will need to be enlarged to meet the increased demand. This analysis assumes that the City of Menlo Park would provide these same services to East Palo Alto. Other municipal-type services are discussed in Appendix E.

### A. Summary of Findings

The findings of this study indicate that the annexation of East Palo Alto to the City of Menlo Park is fiscally sound if San Mateo County transfers a substantial portion of the property tax collected in East Palo Alto to the city's General Fund. For comparative purposes, this analysis assumes that the amount of property tax transferred from the County to Menlo Park would be the same amount identified in the East Palo Alto incorporation study. In the first year costs exceed revenues by a 2% margin but by the second year the revenues generated from annexation would exceed the additional service costs by 3 percent. Other key findings are:

- General government costs for Menlo Park would increase by 17 percent while overall population increases by 69 percent. This is brought about by the economy of size which is experienced by the Menlo Park general government departments when additional service demands are imposed on an existing efficient system.
- Community Development is a self-paying department with no additional costs in excess of revenues expected from the East Palo Alto annexation. The fee structure for planning inspection currently pays for the cost of those services. The block grants for housing rehabilitation are funded from non-general fund sources and could be expanded to administer a housing program in East Palo Alto.
- While overall population increases by 69 percent, police costs would increase by only 62 percent. This is due to

Table C-1  
DEMOGRAPHIC CHANGE WITH ANNEXATION  
TO MENLO PARK

	Population	Percent
Menlo Park - Current Population	26,300	59%
East Palo Alto - Current Population	18,190	41%
Total	44,490	100%
Percent Increase After Annexation	69%	--

Source: Preliminary 1980 U.S. Census.



the economy of size for police administration and other overhead functions. The estimates of additional police service to East Palo Alto correspond to the type of service currently provided for residents of Menlo Park.

- Costs in East Palo Alto are assumed to be comparable to the levels of service currently provided for streets and open space and park maintenance in Menlo Park. It was assumed that the Public Works Department would assume jurisdiction over the East Palo Alto County Water Works District at no capital cost to Menlo Park. Since this service cost is paid for with user fees and would not affect the cost/revenue balance of the city, this analysis did not attempt to evaluate the possible efficiency gains in water delivery costs. The street lighting jurisdiction would also be absorbed by the city. These costs and revenues are included in the annexation analysis.
- Library and recreation service costs and revenues are assumed to accrue to Menlo Park with service levels approximately equal to the current level now experienced in East Palo Alto. A consolidated recreation program would eliminate existing duplication.
- The annexation analysis assumes that no additional extension to Menlo Park buildings or facilities is required for the additional staff and equipment. Further, this analysis assumes that all facilities absorbed by the city in the annexation from other jurisdictions are in working order. Any substantial need for improvements, replacements, or additions could easily cause the costs to exceed the revenues during the first year(s) after annexation.

## II. COST OF SERVICES

### A. General Government

The East Palo Alto annexation would increase the work load and responsibilities of the Menlo Park general government staff. The increase in staff and costs are shown in Table C-2. Generally, the city staff concluded that current levels of staffing and departmental structure would be appropriate for the increased load which would be brought on by the East Palo Alto annexation. No capital costs are added, since the city facility is large enough to house the additional staff.

### B. Community Development

The Community Development Department is divided into two service units. The Planning and Inspection Unit provides overall administrative support and advance planning, code enforcement, and engineering services. These services are paid for with planning and inspection fees. The second unit is the Housing Unit which administers the state and federally financed housing redevelopment programs. The addition of East Palo Alto to Menlo Park would require a substantial expansion of both these service units. However, the income from service fees and grant financing would also increase. The net cost to the city is zero, but there would be a shift of the incidence of cost. Comparable services now provided in East Palo Alto are not fully financed from fees so the residents who use these services would pay higher fees.

### C. Police Protection

Once East Palo Alto were annexed into the city, police service would be provided by the Menlo Park Police Department. At present, the Department consists of 37 sworn officers and 10 support staff, for a total of 47 full-time equivalent staff persons to serve the city's 26,300 people. This staffing level provides the city with a 4-beat patrol coverage between 7 a.m. and 2 a.m. and a 3-beat coverage between 2 a.m. and 7 a.m.

The staffing level estimated for East Palo Alto assumes the same service level currently provided to the City of Menlo Park. It is important to note that the Menlo Park Police Department differs in structure from the sheriff's and highway patrol current practice in providing police protection to East Palo Alto residents. The major differences are as follows:

Menlo Park  
Police Department

- 1-man patrol cars during all shifts including 11 p.m. to 7 a.m.
- Patrol units function as crime prevention patrol, routine investigation, and traffic patrol.
- Back up response provided by additional field officers on the Menlo Park Police Force.
- Menlo Park would operate 3-beat, 1-man patrols, 24 hours with centralized support from the Menlo Park Police Station.

County Sheriff and  
Highway Patrol

- 1-man patrol cars during day shifts; 2-man patrol cars during late night shifts.
- Patrol units function as crime prevention control, first response to investigation. Any detailed investigation is carried by investigators. Traffic control is provided by the California Highway Patrol.
- Back up support requires a mutual aid inter-agency call.
- Sheriff's Field Station operates and is staffed independently with administrative, investigative support and dispatching provided by headquarters in Redwood City - 3-beat, 1-man patrol during the day, 2-beat, 2-man patrol during the night.

Table C-3 indicates the Menlo Park Police Department requirement for additional sworn patrol and support staff for East Palo Alto. To maintain the level of service currently provided in East Palo Alto, \$1,120,000 is necessary.

If East Palo Alto incorporates and adopts the Menlo Park police staff and salary structure, an additional \$315,100 would be needed to provide the necessary staff and equipment. The total cost would be \$1,435,200.

D.     Public Works

The estimated impact of annexing East Palo Alto to Menlo Park would affect the Public Works Department's street, park

Table C-2

## GENERAL GOVERNMENT STAFF REQUIREMENTS

<u>Department and Staff</u>	<u>Additional Unit</u>	<u>Cost per Unit</u>	<u>East Palo Alto Cost</u>
City Manager - 1 Administrative Assistant	1 staff	\$ 29,700	\$ 29,700
City Attorney - Retainer	2/3 cost	32,700	21,800
City Clerk	1/2 time	14,400	7,200
Finance - Clerk	1/2 time	26,600	13,300
Animal Control			11,000
Insurance	<u>1/3 city budget</u>	<u>372,800</u>	<u>124,300</u>
Total East Palo Alto Share			\$207,300

Projected 1981/82 City General  
Government Budget:

● Council/Misc.	\$658,300
● Attorney	70,600
● City Clerk	71,800
● City Manager	333,900
● Finance	<u>75,800</u>

Total without Annexation \$1,210,400

Total after Annexation \$1,417,700

Percent Increase after Annexation 17.1%

## Notes:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.
- 2) 1981/82 dollars are projected from Menlo Park 1980/81 budget by applying a 9% inflation factor.
- 3) Includes materials, equipment and fringe benefits.

Source: McDonald & Associates, based on City of Menlo Park 1980/81 Budget.



Table C-3

STAFF REQUIREMENTS AND COSTS  
FOR POLICE SERVICE

	<u>Additional Units</u>	<u>Cost per Unit</u>	<u>East Palo Alto Cost</u>
Personnel:			
Supervisor (Optional)	2	\$29,100	\$ 58,200
Officers - 3-Beat Patrol	19	25,200	478,800
Detective Support	3	25,200	75,600
Crime Prevention Officers	2	25,200	50,400
Clerical Support	2	16,400	32,800
Dispatch - Communication Officers	2	20,900	41,800
Total Staff/Salary	30		\$737,600
Equipment, Material and Fringe Benefit:			
7 Cars - Replacement, Maintenance and Fuel	7	14,600	\$ 102,200
Material (6% of Salary)	737,600	Times 6%	44,300
Fringe (32% of Salary)	737,600	Times 32%	236,000
Total Police Cost			<u>\$1,120,100</u>
One-Time Cost - Radios	13	2,200	28,600
Projected 1981/82 Police Budget without Annexation			<u>\$1,843,200</u>
Projected 1981/81 Police Budget after Annexation			<u>\$2,991,900</u>
Percent Increase after Annexation			62%

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.
- 2) 1982 dollars are projected from Menlo Park 1980/81 budget by applying a 9% inflation factor. All staff costs assume highest pay range.

Source: McDonald & Associates, based on City of Menlo Park 1980/81 Budget.

maintenance, and street lighting costs. The director does not anticipate any additional administrative costs to be generated from the annexation.

#### E. Streets

The city currently provides a full range of street services for their 76-mile system. These services include:

- Sweeping - every 2 weeks
- Painting, striping, and sign repair
- Patching
- Annual street paving program - based on a prioritized street rating system of need and safety.

These services are delivered at a projected 1981/82 cost of \$4,200 per mile for the 38 miles of road in East Palo Alto for a total cost of \$159,600. A one-time capital cost for an additional street sweeping and a 3-yard dump truck would cost the city an estimated \$80,000.

#### F. Park Maintenance

The Public Works Department currently maintains its 105 acres of park and median area at a projected 1981/82 cost of \$2,500 per acre. The cost of adding 10.5 acres of parks in East Palo Alto to the Menlo Park park maintenance program is \$26,300.

#### G. Street Lighting Service

Street lighting service in East Palo Alto would be administered by the Menlo Park Street Department, who would in turn contract with Pacific Gas and Electric Company for power and maintenance costs. The cost for providing service would be the same as the service arrangement currently provided by the Ravenswood Lighting District. Both Menlo Park and the Ravenswood Lighting District contract with Pacific Gas and Electric. The street lighting costs are estimated at \$143,000 based on cost projections from the East Palo Alto incorporation study.

Street lighting is funded from the Menlo Park General Fund without any special assessment charge. This analysis will assume that street lighting in East Palo Alto is also funded from the General Fund. The revenues derived from property tax for the Ravenswood Lighting District will accrue to the General Fund.

## H. Water

Water service in Menlo Park is currently provided by the city's Public Works Department water unit.

With annexation, the cost for providing water service would either stay the same or decrease because of the economies of associated consolidation.

Since water service is an enterprise service, the cost of water and the distribution system are paid for with service charges. The net cost to the city is zero.

## I. Library

The city currently has one full service library located in the Civic Center at Ravenswood and Alma Avenue. This facility is open 59 hours per week. The library also has a minimum resource reading room in the Belle Haven Community Center which is open approximately 4 hours per week.

The library currently provides their services for the 26,300 people in Menlo Park at a projected 1981/82 cost of \$14.00 per person.

East Palo Alto has a San Mateo County branch library located at 2415 University Avenue. The projected 1981/82 cost of operating this branch is \$230,800, or \$12.75 per capita. This analysis will assume that the East Palo Alto branch library as a branch library to Menlo Park will continue its current level of staffing, hours of operation, and cost. The cost to the city for library service remains at \$230,800. Property taxes collected for the County Library Fund in East Palo Alto would accrue to the city.

## J. Recreation

The Menlo Park Community Resources Department provides a well-rounded program in two separate locations. The Burgess Recreational Center is located at the Civic Center, while the Belle Haven Community Center is located in East Menlo Park. The facilities include:

- Burgess Recreation Center
- Belle Haven Community Center

- 2 swimming pools - 1 at the Burgess facilities and 1 at Belle Haven
- Child Development Center at Belle Haven
- 1 theater at Burgess
- Gymnasium at Burgess

Programs offered to the public fall into three broad categories:

- Programs offered free to the public, with subsidies from state, federal or city General Fund monies are: free play time in gyms, seniors program at Belle Haven, participation in children's theatre, and a childcare program at Belle Haven.
- Partial subsidy and partial fee programs are: summer playground, swimming, concerts, and theatre performances.
- Cost Covering Programs: Recreation classes.

The cost of extending cost covering programs to East Palo Alto is estimated in Table C-4. The cost is based on the assumption that the Community Resource Department would inherit the Ravenswood facilities and offer the same type of program now being provided to East Menlo Park residents at the Belle Haven facility.

The ongoing costs of all city government services, and one time capital costs, analyzed in this section are summarized in Table C-5.



Table C-4

## COMMUNITY RESOURCE DEPARTMENT STAFFING AND COST

	<u>Cost to East Palo Alto</u>
Recreation Facility Including Administration and Basic Services	\$117,700
Pool - Summer Operation - Winter Maintenance	26,200
Summer Gym - Field Trips	46,000
Summer Playground Program	21,800
Total	211,700
Times 125% for Additional Service Volume	\$264,600

## Notes:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.
- 2) All costs represent the program and staffing currently provided to the Recreation Programs in East Menlo Park.
- 3) The cost estimate does not include the cost to rehabilitate the Ravenswood recreation facilities. Rehabilitation costs cannot be estimated until a decision is made about consolidating recreation facilities after annexation.

Source: McDonald & Associates.

Table C-5

SUMMARY OF MENLO PARK PUBLIC SERVICE COSTS  
ASSOCIATED WITH THE ANNEXATION OF EAST PALO ALTO

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
1. General Government	207	207	207	207	207
2. Police	1,149	1,120	1,120	1,120	1,120
3. Street Maintenance and Sweeping	240	160	160	160	160
4. Park Maintenance	26	26	26	26	26
5. Street Lighting	143	143	143	143	143
6. Library	231	231	231	231	231
7. Community Service (Recreation)	<u>265</u>	<u>265</u>	<u>265</u>	<u>265</u>	<u>265</u>
Total	2,261	2,152	2,152	2,152	2,152

## Notes:

- 1) All costs are in thousands of 1981/83 dollars (average).
- 2) Planning and water service which are paid by fees with a net cost to the city of zero.

Source: Tables and text from previous section.

### III. PUBLIC REVENUES

This section provides estimates revenues that would accrue to the City of Menlo Park if East Palo Alto annexes to the city.

Local government revenues are derived from two principal sources:

- Revenues that are generated and controlled locally, and state and federal shared revenues.
- Grants which are controlled by the state and federal governments.

State and federal revenues are allocated either on the basis of statutory formulae or as discretionary grants. A distinction must also be drawn between revenues which may be utilized for any municipal purpose and those which are restricted by statute for a specific use, such as road construction and maintenance. Another distinction must be made between those revenues which occur only once, such as a building permit fee or connection charges, and revenues from continuing sources, such as property taxes, sales taxes and ongoing service charges.

Revenue generating potential for local government in California was profoundly changed by the passage of Proposition 13 in 1978. Proposition 13 requires that property taxes may not exceed one percent of a property's market value. The annual increase in taxable assessed value is limited to 2% except when a change in ownership occurs. Proposition 13 also requires that new local taxes be subject to approval by two-thirds of the voters. In addition, Proposition 4 limits expenditures (or, strictly speaking, appropriation) by local governments to a factor controlled by the rate of inflation and population growth. Proposition 4 also effectively limits use of enterprise service revenues for municipal services unrelated to that service.

The following paragraph describes these revenue sources in detail. Table C-6 presents a summary of revenues that would accrue to Menlo Park.

#### A. Property Tax Revenue

The property tax revenues that would accrue to the City of Menlo Park from East Palo Alto are based on the terms set forth in

Table C-6

SUMMARY OF MENLO PARK REVENUES ASSOCIATED  
WITH THE ANNEXATION OF EAST PALO ALTO

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
General Fund Revenues:					
Property Tax - Including County General					
Fund Transfer	970	983	996	1,009	1,023
Sales Tax	141	141	141	141	141
Business License Tax	28	28	28	28	28
Property Transfer Tax	16	16	16	16	16
Cigarette Tax	44	44	44	44	44
Motor Vehicle in Lieu Fee	390	390	390	390	390
Federal Revenue Sharing	163	163	163	163	163
Franchise Tax	141	143	143	143	143
Interest Income at 2%	46	46	46	46	46
Dedicated Revenues:					
Vehicle Code Fine and Forfeitures	50	50	50	50	50
Gasoline Tax	174	158	144	131	119
Police Community Relations Grant (AB-90)	50	50	50	50	50
Total	2,213	2,212	2,211	2,211	2,213

## Notes:

1) All figures in thousands of 1981/82 dollars (average).

Source: McDonald & Associates.



Assembly Bill 8 concerning the transfer of jurisdictional service boundaries and the effect these changes have on the transfer of property tax revenues. The basic guideline states, "the share of property tax allocated to each service shall transfer at the time of jurisdictional boundary change." The notable exception to this rule is in the case of a newly incorporating city. In such a case, the new city receives revenues without having service costs during the period between the approval of incorporation and the following July 1st.

Table C-7 indicates the amount of property tax transferred to Menlo Park from the affected agencies.

#### B. Sales Tax

A sales tax is levied against the gross sales of most tangible property with the exception of resale property, food for home consumption, prescription medicine, newspapers, periodicals, poultry and livestock. All incorporated cities and unincorporated county areas are required by law to levy a 1% tax on these items. The remaining 5% is levied by the state General Fund (4 3/4%) and the statewide transit tax (1/4%).

The annexation of East Palo Alto to the City of Menlo Park would transfer the \$141,000 of sales tax collected by San Mateo County from businesses located in East Palo Alto. It is of interest to note that businesses to the west of the Bayshore Freeway generate 58% of the sales tax in East Palo Alto while the remaining 42% comes from east of the Bayshore area.

#### C. Licenses & Permits

Licenses and permits cover a variety of revenue generating sources which fall into two broad categories:

- The first category is made up of fees for services such as planning fees and engineering fees, etc. These fees are addressed in the cost section of this analysis and are assumed to have a net impact of zero on the city budget.
- The second category of licenses is that of business license fees which are charged to businesses in the city based on gross receipts, number of employees, or various flat rates imposed on certain types of businesses (i.e., public amusements, advertising, auctions, etc.)

Table C-7

## PROPERTY TAX TRANSFER TO MENLO PARK

<u>Agency</u>	<u>Property Tax Revenue Transferred to Menlo Park General Fund</u>	<u>Percent of Agency Property Tax Revenue</u>
San Mateo General Fund	\$245,000	1 1/2%
San Mateo County Library Fund	66,000	2%
County Service Area #5	435,000	100%
Ravenswood Recreation District	156,000	100%
Ravenswood Lighting District	<u>68,000</u>	100%
Total	\$970,000	

## Notes:

- 1) These revenues represent collection of secured and unsecured property taxes plus homeowners and business inventory tax relief. Special district augmentation fund transactions are not included.
- 2) The property tax revenue to Menlo Park differs from the amount shown in the incorporation study for the following reasons:
  - Menlo Park includes San Mateo County Library Fund property tax revenues.
  - Menlo Park excludes East Palo Alto Sanitary District property tax revenues.
  - The incorporation analysis uses 1980/81 as a base year for revenue calculations while the negotiated transfer to Menlo Park would presumably be based on 1981/82 property tax revenues.

Source: McDonald & Associates.

Table C-8 indicates that East Palo Alto would generate an estimated \$28,000 of business license revenues for the Menlo Park General Fund. This estimate may be optimistic in that it assumes the relationship between business activity and retail sales in Menlo Park would also exist in East Palo Alto.

D.     Property Transfer Tax

Counties in California levy a tax on the transfer of real property at a rate of \$1.10 per \$1,000 of sale price value. Existing mortgages which are assumed by the buyer are exempt from the tax.

Annexation of East Palo Alto to Menlo Park would transfer 50 percent of the tax that the county currently collects in East Palo Alto to the city's General Fund. This revenue source is estimated to be \$16,000 per year.

E.     Use of Money

Revenues from the use of money result from interest on idle funds invested in high-yield savings accounts. The East Palo Alto revenues generated will be estimated from interest income based on a 2% earnings from General Fund revenues.

F.     Cigarette Tax

The State of California collects an excise tax on cigarettes of ten cents per package levied upon wholesale distributors. Three cents of this amount is shared with local governments. The total local government share is divided among city and county governments on the basis of sales tax revenue attributable to each city and county for the previous year. Of the portion allocated to cities, the amount remitted to each city is determined by a formula which gives equal weight to sales tax and population.

The cigarette tax revenue, as calculated in the incorporation study, uses information from the State Board of Equalization. The 1981/82 revenue estimate of \$2.43 per capita used in the incorporation analysis is used in the annexation study as well. Cigarette tax is a General Fund revenue and may be used for any municipal purpose.

Table C-8

MENLO PARK BUSINESS LICENSE TAX  
GENERATED FROM EAST PALO ALTO

Current Menlo Park Sales Tax Revenue (1980/81)	\$1,800,000
Current Menlo Park Business License Tax Revenue (1980/81)	\$360,000
Business License as a Percent of Sales Tax	20%
East Palo Alto Sales Tax Revenue	\$141,000
Percent of Business License Revenue	20%
Estimated Business License Revenue from East Palo Alto Business	\$28,000

Notes:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.

Source: McDonald & Associates.



#### G. Motor Vehicle in Lieu Fee

Each year, when a motor vehicle is registered, the State Department of Motor Vehicles collects a fee based on two percent of the market value of the vehicle. This fee is in lieu of personal property tax which would normally be levied by local governments. The Department of Motor Vehicles deducts its collection costs from this fund and distributes the balance equally among city and county governments in California. The portion to cities is distributed on the basis of each city's share of the total city population. Vehicle in lieu fee revenue equals \$21.55 per capita in the incorporation study, slightly higher than the \$18.82 per capita collected in Menlo Park. For the sake of comparative analysis, the \$390,000 estimate from the incorporaton study is used for the revenue projection. This additional amount was not affected by Senate Bill 201, passed in June 1981.

Vehicle in lieu revenue is a general revenue which may be used for any municial purpose.

#### H. General Revenue Sharing

The County of San Mateo receives an annual grant from the federal government's General Revenue Sharing Program. This program provides a share of federal tax revenues to state, county, and city governments throughout the United States. The long-term future of General Revenue Sharing is uncertain, and annual payments are subject to the federal budget process. Nonetheless, while the debate in Congress includes proposals to eliminate revenue sharing for states, the program for cities and counties has strong political support and can be expected to continue.

The cities' portion of General Revenue Sharing is allocated in proportion to a complex weighting function which reflects population, tax effort, and relative per capita income (low income communities are favored).

Thus, while Menlo Park (a high tax, high income community) receives \$5.93 per capita, the portion to be annexed - East Palo Alto - would contribute an estimated \$23.93 per capita if it were to incorporate. The consultants have estimated that if East Palo Alto is annexed into Menlo Park, federal revenue sharing funds would generate \$9.00 per capita for the additional 18,100 people in East Palo Alto, or \$163,000. Revenue sharing

is a General Fund revenue and may be used for any municipal purpose.

I. Franchise Tax Revenue

The City of Menlo Park levies a franchise tax on private utilities which operate within the city. These services include the Pacific Gas and Electric Company, garbage collection, and water franchises. Table C-9 indicates the gross revenues estimated from East Palo Alto by these various utilities, and applies the 2% utility franchise tax to yield the additional franchise tax revenue to the city. The franchise tax is a General Fund revenue and can be used for any municipal purpose.

J. Vehicle Code Fines and Forfeitures

Fines and bail forfeitures, which are imposed upon those who violate the State Vehicle Code or local ordinances, provide a source of revenue to the cities. The fines collected within a city, whether the result of a citation by a city or state officer, accrue to the city. A portion of this revenue is shared with the county to defray the cost of municipal courts and administration.

Revenue from Vehicle Code fines varies according to an area's combination of street and highway networks and demographic characteristics. The fine and bail forfeiture revenue from East Palo Alto is estimated in the incorporation study at \$50,000. This figure was utilized to project the contribution to Menlo Park from East Palo Alto. Vehicle Code fines and bail forfeitures are a revenue source which is restricted to expenditures for traffic safety such as signals, public education, signs and other road improvements.

The cost for road maintenance far exceeds the revenues generated from the restricted road related revenues.

K. Highway Users Tax Revenue (Gas Tax)

Both the state and federal government levy excise taxes on gasoline, which are used for highway construction and maintenance. The total state excise tax is \$0.07 per gallon. Approximately 48% of the state excise tax is shared with cities and counties on the basis of motor vehicle registration, assessed value, population, and maintained road miles. East Palo Alto generated an estimated \$226,000 in Fiscal Year 1979/80 from the

Table C-9

UTILITY FRANCHISE TAX REVENUE  
FOR GARBAGE, GAS AND ELECTRIC, AND WATER

	<u>Garbage Cost</u>	<u>Water Cost</u>	<u>Gas and<sup>2)</sup> Electric</u>	<u>Total</u>	<u>2% Utility Franchise Tax</u>
1982/83	\$960	\$905	\$5,200	\$7,065	\$141
1983/84	960	905	5,304	7,169	143
1984/85	960	905	5,410	7,275	146
1985/86	960	905	5,518	7,383	148
1986/87	960	905	5,629	7,494	150

Notes:

- 1) All dollar figures are expressed in terms of 1981/82 (average) purchasing power.
- 2) Assumed to inflate at 2% above the Consumer Price Index.

Source: McDonald & Associates.

state gasoline tax. This amount varies from year to year depending upon total state gasoline tax revenue collected and changes in the distributional factors. The figure \$226,000 was used to estimate the revenue base for future gasoline tax receipts to the city.

The gasoline tax is based upon a state levied, fixed tax on gallons of gasoline, rather than the value of gasoline. Annual gas tax revenues have remained relatively stable over the past 10 years, with increases due only to (slightly) rising gasoline consumption. This growth has not approached the price inflation affecting road construction which has increased significantly faster than general price inflation. Unless the tax rate on gasoline is increased, the purchasing power of the levy will continue to decline.

The estimate of the impact of the annexation on gas tax revenue did not assume a tax rate increase. It assumed, in effect, that per capita gasoline consumption remains constant and that per capita tax collections remain constant in nominal terms. The additional assumption was made that street maintenance costs increase no faster than overall price inflation. (This is an optimistic assumption, given the use of petroleum products in street maintenance, but it tends to offset the effect of a slight increase in per capita tax collections.)

The net result of the assumptions is that gas tax collections resulting from the annexation are directly proportional to population increase except that real (in contrast to nominal) purchasing power declines at a compound rate of 10% per year. (The average rate of inflation is assumed to be 10% per year during the study period.)

#### L. Police Services Grant (AB-90)

A continuing grant of \$50,000 per year was assumed. While the AB-90 program, "sunsets" after 1982/83, it is entirely realistic to assume that it, or a comparable program, will be extended. The City of Menlo Park would be a strong competitor for available funds. (This revenue was shown as a "General Fund" revenue for analytic convenience when calculating fund balances.)



#### IV. GENERAL CONCLUSIONS

As indicated in Table C-10, the annexation of East Palo Alto to the City of Menlo Park will produce annual surplus revenues of 3 to 8 percent. This surplus assumes that the San Mateo County government relinquishes the portion of their property tax that is transferred in the incorporation analysis. In the annexation and incorporation examples, it is estimated that the county would transfer \$241,000 of the \$411,000 (59%) of general fund property tax collected in East Palo Alto. The transfer of property tax base (current taxes collected) and increment (any future taxes generated beyond the "base") are negotiated by the jurisdiction gaining the area (Menlo Park) and the jurisdiction losing the area (the county).

Table C-10

COMPARISON OF GOVERNMENT COST AND REVENUES  
OF ANNEXATION OF EAST PALO ALTO  
TO THE CITY OF MENLO PARK

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
Cost Summary	2,261	2,152	2,152	2,152	2,152
Revenue Summary	2,213	2,212	2,211	2,211	2,213
Cost/Revenue Balance	-48	+60	+59	+59	+61
Cumulative Total	-48	+12	+71	+130	+191

Source: McDonald & Associates.

APPENDIX D

ANNEXATION TO THE CITY OF PALO ALTO





## I. INTRODUCTION AND SUMMARY

### A. Introduction

The following analysis considers the public service impact of annexing East Palo Alto to the City of Palo Alto. Table D-1 shows that annexation of East Palo Alto would increase the city population 33 percent and, that once annexed, the East Palo Alto portion of the expanded city would represent 25 percent of the total city population.

The following analysis evaluates the impact of East Palo Alto on Palo Alto's public service costs and revenues. The city departments will need to enlarge their service capacity to meet the increased demand. Table D-2 indicates the services currently being provided by Palo Alto. This analysis assumes that the City of Palo Alto will provide these same services to East Palo Alto

Other services not provided by the city are discussed in Appendix E.

### B. Summary of Findings

The findings of this study indicate that the annexation of East Palo Alto to the City of Palo Alto is not fiscally sound.

For comparative purposes, this analysis assumes that the amount of property tax transferred from the county to Palo Alto would be the same amount identified in the East Palo Alto incorporation study.

The revenues generated from annexation, including the County General fund property tax transfer do not exceed the additional service cost. Costs exceed revenues by 17% to 19% annually.

Other key findings are:

- General Government costs increase by 11% while overall population increases by 33%. This assumes an economy of scale similar to the annexation analysis of Menlo Park.
- The Planning and Community Development Department would need additional staff. Additional costs for planning and inspection would be paid for from fees or services with a net impact on the budget of \$138,000 annually for advance planning cost.

Table D-1

DEMOGRAPHIC CHANGE WITH ANNEXATION  
OF EAST PALO ALTO TO PALO ALTO

	<u>Population</u>	<u>Percent</u>
Palo Alto - Current Population	55,400	75%
East Palo Alto - Current Population	18,190	25%
Total	73,590	100%
Percent Increase after Annexation	33%	

Source: Preliminary 1980 U.S. Census.

Table D-2

PUBLIC SERVICES PROVIDED BY PALO ALTO

1. General Government - City Council, City Manager, Attorney, Finance, City Clerk, Civil Defense
2. Planning and Community Development
3. Police
4. Fire
5. Communications and Animal Services
6. Public Works
7. Street - including maintenance, sweeping and storm drain maintenance
8. Park Maintenance - parks and meridian strips
9. Street Lighting
10. Recreation and Culture
11. Social and Community Services, Arts and Sciences, Recreation
12. Library
13. Utility Programs - electric, gas, water sewer, refuse

Source: City of Palo Alto City Budget 1980/81.

- Police costs increase by 24% while overall population increases by 33%. This is due to the economy of size in police administration and other overhead functions. The per capita police costs are generally higher than Menlo Park's (and the estimate of sheriff costs observed in the East Palo Alto incorporation study) because of Palo Alto's large commercial/industrial base and the correspondingly larger daytime population.
- Public works costs for street maintenance, sweeping, storm drain maintenance, and park maintenance, assume a service level currently provided in Palo Alto. Other public works responsibilities are for the self-supporting utility programs and include electric, gas water, sewer and refuse services.
- Library and Recreation Service costs are assumed to accrue to Palo Alto with service levels equal to the service now available in East Palo Alto
- This analysis assumes no additional facilities are necessary to house the additional staff and that all facilities absorbed into the city by the jurisdictions currently providing service in East Palo Alto are in working order. Any substantial need for improvements, replacements, or additions would cause the costs to exceed the revenues by an even greater margin during the first few years.
- The annexation causes Palo Alto to lose \$590,000 in year one and \$507,000 in year five. The annexation of East Palo Alto to Menlo Park yields quite different results with costs exceeding revenues in year one of \$40,000 and revenues exceeding costs in year three through four of over \$60,000 annually. There are three major factors that contribute to the difference.
  - Fire protection service, which is included in the Palo Alto analysis but not in the Menlo Park analysis, adds \$714,000 of cost while contributing \$300,000 in property taxes. The \$414,000 difference would be funded from Palo Alto's general fund.
  - Advance planning in Palo Alto is funded from the general fund with a projected cost for extending service to East Palo of \$138,000. On the other



hand, Menlo Park has a fee structure which pays for advance planning with a net cost of extending service to East Palo Alto of zero.

- Per mile street maintenance costs are slightly higher in Palo Alto than in Menlo Park.

## II. COST OF SERVICES

The Palo Alto annexation analysis assumes the same approximate level of service used in the Menlo Park annexation analysis. A summary of the additional cost to the city is shown in Table D-3.

### A. General Government

General government costs are increased to reflect the incremental increase in staff necessary to handle the increased load. That cost in 1981/82 dollars is \$207,000 including salaries, materials and fringe benefits. It is assumed that additional staff could be housed in existing facilities.

### B. Planning

Planning and Community Development Department provides advance planning, code enforcement and engineering services. These costs are paid for with fees for services with a net cost to the city for advance planning services of \$7.00 per person. The city would need to greatly expand its housing/redevelopment capacity to administer the state and federal grant programs available to East Palo Alto. The additional cost to the city general fund would be an estimated \$138,000.

### C. Police

The annexation of East Palo Alto to Palo Alto would require a substantial increase in the Palo Alto police staffing. The staff requirements assume a level of service currently being offered to Palo Alto residents. The police service requirements of annexing East Palo Alto would increase the 1981/82 city budget by \$1,120,000 including all salaries, materials and fringe benefits.

### D. Fire

Under this alternative, fire service in East Palo Alto would shift from the Menlo Park Fire Protection District to the City of Palo Alto's Fire Department. The cost of providing fire protection in East Palo Alto is estimated at \$714,000 (1981/82). This cost includes salary and benefits for the 5-man Engine Company in East Palo Alto plus support maintenance, material and equipment. It is of interest to note that the estimated

Table D-3

SUMMARY OF PALO ALTO SERVICE COSTS  
ASSOCIATED WITH THE ANNEXATION OF EAST PALO ALTO

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
General Government	207	207	207	207	207
Planning	138	138	138	138	138
Police	1,120	1,120	1,120	1,120	1,120
Fire	714	714	714	714	714
Streets - sweeping, surface and storm drain maintenance	262	182	182	182	182
Animal Services	11	11	11	11	11
Street Lighting	143	143	143	143	143
Park Maintenance	24	24	24	24	24
Recreation	265	265	265	265	265
Library	231	231	231	231	231
Total	3,115	3,035	3,035	3,035	3,035

## Note:

1) All costs in thousands of 1982/82 dollars.

Source: McDonald & Associates.

property tax generated in East Palo Alto for the Menlo Park Fire Department is \$300,000 (excluding county augmentation fund contributions). The \$414,000 shortfall would come from the Palo Alto general fund.

Currently fire districts, like Menlo Park Fire Protection District, may be able to fund their revenue shortfalls from the Special District Augmentation Fund. If territory served by a fire district is annexed, any shortfall is funded from the city's general fund.

E. Animal Services

Animal control will continue at the same level anticipated in the incorporation analysis - \$11,000 per year.

F. Street Lighting

Street lighting in East Palo Alto costs \$143,000 per year. Our analysis will assume these costs will be picked up by Palo Alto. Street lighting costs are financed by the general fund in Palo Alto. This analysis will assume that East Palo Alto will adopt Palo Alto's street lighting finance mechanism.

G. Streets.

The city of Palo Alto currently provides street maintenance, sweeping and storm drain maintenance at a projected 1981/82 cost of \$4,800 per mile. This standard, applied to East Palo Alto's 38 miles of road, would yield a total cost of \$182,400. Additional one-time capital costs for a sweeper and 3 year dump truck would add a first year cost of \$80,000.

H. Park Maintenance

The Public Works Department currently provides park and median strip maintenance at a cost of \$2,240 per acre. The cost of adding 10.5 acres of park in East Palo Alto to the system would increase the cost by \$24,000.

I. Recreation

This analysis assumes that Palo Alto will inherit the Ravenswood Recreation facilities and run a program similar to the one offered in Menlo Park's Belle Haven facility. The program would cost Palo Alto an additional \$265,000.



J.     Library

This analysis assumes that the City of Palo Alto would maintain the East Palo Alto branch library at its current service level at a cost of \$231,000. Property taxes collected for the County library fund of \$65,880 would also accrue to the City General Fund.

K.     Utility Programs

Utility programs consist of City enterprise departments providing electric, gas, water, sewer and refuse service. These services are paid for with fees for services. The fee not only pays for the cost of providing the service but also contributes a percentage of the revenues into the general fund for administrative purposes. The General Fund revenues are discussed in the "revenue" section of this appendix. Otherwise, the cost of the utility programs to city budget is zero.

### III. PUBLIC REVENUES

This section provides estimates for revenues that would accrue to the City of Palo Alto if East Palo Alto is annexed by the city. The following paragraphs describe the various revenue sources in detail. Table D-4 presents a summary of revenue that would accrue to Palo Alto with the annexation of East Palo Alto.

#### A. Property Tax Revenue

The property tax revenue that accrues to the City of Palo Alto from East Palo Alto would be subject to the findings of a County Boundary Review Commission, since Palo Alto is in Santa Clara County and East Palo Alto is currently in San Mateo County. For the sake of comparison, this analysis will assume the same property tax transfer that was allocated in the Incorporation Study and the Menlo Park annexation (Appendix C). Table D-5 indicates the amount of property tax that would accrue to the City of Palo Alto.

#### B. Sales Tax

Sales tax accruing to Palo Alto from the retail sales generated in East Palo Alto is \$141,000.

#### C. Licenses and Permits

Most licenses and permit fees pay for cost of service, such as building permits paying for processing and building inspection costs. The one exception, business license fees, accrues to the general fund with no direct service cost. This analysis will assume that business license fees from East Palo Alto will generate the \$28,000 amount used in both the Incorporation and Menlo Park annexation analysis.

#### D. Property Transfer Tax

The City of Palo Alto would receive an estimated \$16,000 per year as per the discussion in both the incorporation and annexation to Menlo Park analysis.

Table D-4

## SUMMARY OF PALO ALTO PUBLIC SERVICE REVENUES

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
General Fund Revenues:					
Property Tax	1,372	1,390	1,407	1,426	1,445
Sales Tax	141	141	141	141	141
Business License Tax	28	28	28	28	28
Property Transfer Tax	16	16	16	16	16
Cigarette Tax	44	44	44	44	44
Motor Vehicle In Lieu Fee	390	390	390	390	390
Federal Revenue Sharing	163	163	163	163	163
Transfers from Utility Funds	141	143	146	148	150
Interest Income at 2%	50	50	50	50	51
Dedicated Revenues:					
Vehicle Code Fines and Forfeitures	50	50	50	50	50
Gasoline Tax	174	158	144	131	119
Police Community Relations Grant (AB-90)	50	50	50	50	50
Total	2,619	2,621	2,624	2,630	2,637

Note: All dollars in thousands of 1981/82 dollars.

Source: McDonald & Associates.

Table D-5

PROPERTY TAX REVENUE TO PALO ALTO  
FROM EAST PALO ALTO

	<u>Property Tax Revenue</u>
From Table C-7 (Menlo Park Annexation)	\$ 970
Transfer from: Menlo Fire Protection District	303
Palo Alto Sanitary District	<u>99</u>
Total 1982/83	\$1,372
Total 1983/84	1,390
Total 1984/85	1,407
Total 1985/86	1,426
Total 1986/87	1,445

## Notes:

- 1) All dollars in thousands of 1981/82 dollars.
- 2) Property tax for Palo Alto differs from the amount shown in the incorporation study for the following reasons:
  - County Library Fund property tax revenues are transferred to Palo Alto.
  - The Incorporation Analysis uses 1980/81 as a base year for revenue calculations while the negotiated transfer to Palo Alto would presumably be based on 1981/82 property tax revenues.

Source: McDonald & Associates.



E.     Cigarette Tax

The City of Palo Alto would receive an estimated \$44,000 from cigarette tax as per discussions and assumptions in both the incorporation and annexation analyses.

F.     Motor Vehicle In Lieu Fee

The City of Palo Alto would receive an estimated \$390,000 from Motor Vehicles in Lieu Fees as per discussions and assumptions in both the incorporation and annexation analyses.

G.     Federal Revenue Sharing

The City of Palo Alto would receive an estimated \$163,000 from Federal Revenue Sharing as per discussions and assumptions set forth in the annexation to Menlo Park analysis.

H.     Transfer from Utility Fund

The City of Palo Alto provides electric, gas, water, sewer, and refuse services to its residents. The majority (75%) of these revenues pays for costs that pay for the utility services such as:

- Direct salaries
- Contracts for gas and electric
- Rent
- Bond retirement

The revenues left after paying the direct costs accrue to the City General Fund. The estimated city 1981/82 transfer to the General Fund is \$7,000,000. Revenues generated from East Palo Alto by the utility fund are not expected to exceed those calculated for the Menlo Park Annexation for the following reasons:

- It is assumed that Palo Alto would purchase Pacific Gas and Electric equipment in East Palo Alto, at current appraised value. The amortization of this capital cost would be much higher than the city wide average debt service for utility equipment capital costs.
- Palo Alto would need to negotiate new power contracts with Pacific Gas and Electric Company for additional gas and electricity. The contract would be negotiated at a much higher rate than contracts serving the existing city.

- Commercial and industrial use of utilities represents 75% of the City's power consumption. The "profit" or percentage of transfer to the City General Fund from commercial and industrial accounts is much higher than the residential customers who typically enjoy life line rates and a higher service to sales ratio.

Because of the above factors, the amount of revenue generated for the General Fund by East Palo Alto from utility sales will be assumed to equal the estimates used in the Menlo Park analysis.

#### I. Use of Money

Revenues from the use of money results from interest on idle funds invested in high yield savings accounts. The East Palo Alto revenue generated will be estimated from interest income based on a 2% earnings of General Fund revenues.

#### J. Dedicated Revenues

Dedicated Revenues include Vehicle Code fines and forfeitures, gasoline tax revenues and police community relations grant (AB 90). The City of Palo Alto would receive the following estimated 1981/82 revenues based on discussions and assumptions used in both the incorporation and annexation analyses.

	<u>Revenues 1982/83</u>
● Vehicle Code Fines and Forfeitures	\$ 50,000
● Gasoline tax (declines by 10% per annum)	187,000
● Police Community Relations Grant (AB-90)	50,000

Table D-6

COMPARISON OF GOVERNMENT COSTS AND REVENUES  
ANNEXATION OF EAST PALO ALTO  
TO THE CITY OF PALO ALTO

	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>
Cost Summary	3,115	3,035	3,035	3,035	3,035
Revenue Summary	2,619	2,621	2,624	2,630	2,637
Cost Revenue Balance	-496	-414	-411	-405	-398
Cumulative Total	-496	-910	-1,321	-1,726	-2,124

Note: All dollars in thousands of 1981/81 dollars.

Source: McDonald & Associates.

### III. GENERAL CONCLUSION

As indicated in Table D-6, the annexation of East Palo Alto to the City of Palo Alto would produce an annual deficit of \$496,000 in the first year and decline to \$398,000 by the 5th year. The annual loss exceeds revenues by 17 to 19 percent. The cumulative loss at the end of the fifth year exceeds 2.1 million dollars. Possible methods for mitigating the annual short fall are:

- Decline in service level to East Palo Alto from that experienced in Palo Alto.
- Raise fee to East Palo Alto above that experienced in Palo Alto.
- Reduce city wide service level to supplement East Palo Alto revenue short fall.

The finding of this analysis is that annexation of East Palo Alto to Palo Alto is not fiscally sound during the first five years of operation and, while the deficit does decrease slightly each year, would not be fiscally feasible in years beyond.

The analysis assumed annexation to Palo Alto would take place at the start of the 1982/83 fiscal year, solely to preserve comparability with the fiscal analyses of the other alternatives. In practice, it is doubtful that the administrative requirements associated with annexation to Palo Alto could be completed by July 1, 1982. Since Palo Alto is in Santa Clara County, and since the territory of a city cannot be in more than one county, a change in the San Mateo/Santa Clara county line would have to precede the annexation. The procedure (described in the main body of the present report) is complex and time consuming.



APPENDIX E

JURISDICTION CONSOLIDATION ISSUES  
AND RECOMMENDATIONS



## I. INTRODUCTION

### A. Introduction

The following section analyzes each of the jurisdictions subject to consolidation which provide service in East Palo Alto. The jurisdictions to be reviewed are:

- County Library
- County Service Area No. 5 - Police
- East Palo Alto County Waterworks District
- East Palo Alto Municipal Council
- East Palo Alto Sanitary District and Menlo Park Sanitary District
- Flood Control Agencies
  - San Francisquito Creek Flood Zone
  - Ravenswood Slough Flood Zone
  - Palo Alto Gardens Drainage Maintenance District
  - East Palo Alto Drainage Maintenance District
- Menlo Park Fire Protection District
- Private Water Companies
- Ravenswood Lighting District
- Ravenswood Recreation & Park District

Each jurisdiction is discussed in terms of what it does, how it provides service, the community requirement for the service, and observes the ability of other agencies to provide service. The last statement in each review is a recommendation of the jurisdictions' Sphere Of Influence.

### B. County Library

Background. The San Mateo County Library provides library service to East Palo Alto with a branch library located at 2415 University Avenue. This branch serves the 18,100 residents in East Palo Alto with 4.8 full-time staff (full time equivalent) in a 10,600 square foot facility which is open 50 hours per week. The facility's size, staffing and hours adequately serve East Palo Alto residents.

Options. The possible options for other jurisdictions to provide the service are discussed in the Appendix C and D, "Annexation to the City of Menlo Park" and "Annexation to Palo Alto" respectively. These options neither decreased the cost, increased the effectiveness of the service, nor do they consolidate jurisdictional boundaries.

Recommendation: The San Mateo County Library should continue to provide library service in East Palo Alto.

C. County Service Area No. 5

Background. County Service Area No. 5 is a taxing jurisdiction established by the residents of East Palo Alto for the purpose of supplementing sheriff service costs with additional property tax revenues. County Service Area No. 5 is coterminous with East Palo Alto and collects property tax revenue throughout East Palo Alto. County Service Area No. 5 is governed, as are all County Service Area's, by the County Board of Supervisors.

Under the guidelines of AB-8, the revenue associated with a specific service are assigned to the jurisdiction providing the service. Thus, the agency providing police service to East Palo Alto will also receive the property tax collected for County Service Area No. 5.

Options: There are three possible alternatives for police service in East Palo Alto.

- Menlo Park Police Department: This option would occur if East Palo Alto annexes to the City of Menlo Park. This does not preclude the possibility of an incorporated city of East Palo Alto contracting with the Menlo Park Police Department for police service on either an interim or permanent basis. However, the jurisdictional responsibility would belong to the incorporated city, not the Menlo Park Police Department.
- Palo Alto Police Department: This option would occur if East Palo Alto annexes to the City of Palo Alto. Here again, contract services could occur similar to the Menlo example.
- Incorporated city of East Palo Alto: This alternative assumes that the new city would provide police service either with its own police force or by contract with the sheriff, or the City of Menlo Park.

Recommendation: Upon the successful election for incorporation, County Service Area No. 5 would transfer its revenue to the newly incorporated city of East Palo Alto.



#### D. East Palo Alto County Waterworks District

Background: The East Palo Alto Waterworks District is governed by the San Mateo County Board of Supervisors. It is entirely self-supporting out of user revenues. The district purchases water wholesale from the San Francisco Water Department's Hetch Hetchy system and transmits it through its network of water mains and laterals.

Options: There are three possible alternatives for water delivery service in East Palo Alto.

- Jurisdiction passes to the City of Menlo Park: This alternative would be justified if annexation to Menlo Park occurs. There would be no increase in quality of service nor little reduction in the cost of service under this option.
- Jurisdiction passes to the City of Palo Alto: This alternative would be justified if annexation to Palo Alto occurs. There would be no increase in quality of service nor little reduction in the cost of service under this option.
- Jurisdiction passes to a newly incorporated city of East Palo Alto: It would be appropriate for an incorporated city to have jurisdiction over the water delivery system. Water delivery revenues are typically used to finance city services provided for general management (city management office) and collection (finance department).

Recommendation: The East Palo Alto Waterworks District should be eliminated and pass its responsibility of government, management, service delivery and collection of fees to the newly incorporated city of East Palo Alto.

#### E. East Palo Alto Municipal Council

Background: The San Mateo County Board of Supervisors formed the East Palo Alto Municipal Council in 1967. The Municipal Council is an elected body intended to provide community leadership and to advise the County Board of Supervisors and other public service providers on matters affecting East Palo Alto. Continuing activities of the council include:

- Promoting local business and economic development;
- Facilitating the delivery of social and human services;
- Facilitating the delivery of public health and safety services;
- Participatng in housing and community development programs in an effort to upgrade the housing stock and encourage social and cultural development;
- Evaluating the possibility of incorporation.

Funding for the Municipal Council is derived from the County General Fund.

Options: There are three available options for providing the type of service provided by the Municipal Council.

- Jurisdiction passes to the City of Menlo Park: This alternative would be justified if East Palo Alto were annexed to Menlo Park. Under this alternative the Municipal Council responsibilities would be performed by the Menlo Park City Council and the Planning Commission.
- Jurisdiction passes to the City of Palo Alto: This alternative would be justified if East Palo Alto were annexed to Palo Alto. Under this alternative the Municipal Council responsibility would be performed by the Palo Alto City Council and the Planning Commission.
- Jurisdiction passes to a newly incorporated city of East Palo Alto: This alternative would be appropriate if East Palo Alto incorporates. The new city would be in the best position to assume the responsibilities of the Municipal Council since the boundaries and population of the two are coterminous.

Recommendation: The duties of the East Palo Alto Municipal Council would be assumed upon incorporation of East Palo Alto. The Municipal Council would be dissolved with responsibility transferred to the new city.

F. East Palo Alto Sanitary District and Menlo Park Sanitary District

Background: Sewage treatment, collection and disposal are provided by the East Palo Alto Sanitary District and the Menlo Park Sanitary District. By far the larger portion of East Palo Alto is served by the East Palo Alto Sanitary District. The exceptions are parts of the University Village area and the Bayshore Park area.

The East Palo Alto Sanitary District is a special district governed by its own elected Board of Directors. The Board is authorized by law to levy taxes on property (a power effectively eliminated by Proposition 13) and charge users for its services. The district owns the collecting system of mains and laterals. It contracts with the City of Palo Alto for treatment and discharge of sewage. Under the agreement, the East Palo Alto Sanitary District can discharge up to 2,250,000 gallons per day.

The East Palo Alto Sanitary District has approximately one million dollars worth of capital improvements necessary to upgrade the systems deficiencies. The district has approximately \$500,000 of reserves to meet these needs.

There are two sources of revenue available to the East Palo Alto Sanitary District, a property tax and user fees. The property tax generated approximately \$98,000 during the 1980/81 fiscal year. The other source is a service charge to users that operates on a scale beginning at \$42.00 for a single family residence and is adjusted upward for multiple units.

Options: There are three possible alternatives available for sanitation service delivery.

- Jurisdiction passes to Menlo Park Sanitary District: This alternative would be appropriate if East Palo Alto is annexed to the City of Menlo Park. This option would consolidate all of the City of Menlo Park's sanitation service under the Menlo Park Sanitary District. This alternative also follows LAFCo guidelines of encouraging district consolidation.
- Jurisdiction passes to Palo Alto Sanitary District: This alternative would be appropriate if East Palo Alto is annexed to Palo Alto. The discharge of sewage is currently contracted with the City of Palo Alto. Annexation to



Palo Alto would eliminate the need for a sub-contract with East Palo Alto Sanitary District. However, annexation to Palo Alto is not a fiscally sound option from a city wide perspective.

- Jurisdiction passes to the newly incorporated city of East Palo Alto. This option would allow for local political control of the sanitation service while consolidating the EPASP jurisdiction. The city could then either provide sanitation service by direct staff support or by contracting service with Menlo Park Sanitary District or the City of Palo Alto.

Recommendation: The duties and responsibility of the East Palo Alto Sanitary District would be assumed upon incorporation of East Palo Alto. The responsibilities of the East Palo Alto Sanitary District would be dissolved with service delivery and property tax and fee assessment capacity transferred to the new city.

#### G. Flood Control Agencies

Background: Flood control agencies currently providing service in East Palo Alto are:

- San Francisquito Creek Flood Zone
- Ravenswood Slough Flood Zone
- Palo Alto Gardens Drainage Maintenance District
- East Palo Alto Drainage Maintenance District

These districts are governed by the San Mateo County Board of Supervisors.

Traditionally, drainage maintenance districts are established to maintain storm drains in unincorporated areas with costs covered by a local property tax levy. In 1978-79, because of Proposition 13, the maintenance costs were covered primarily with county gas tax revenue. A recent state law allows the county to levy a benefit assessment on local property owners for maintenance services.

Options: It is not appropriate for cities to assume the regional responsibility of flood control zones. The consolidation of San Francisquito Creek Flood Zone and Ravenswood Slough Flood Zone are not appropriate because each serves a separate water shed. However, it is entirely appropriate for the functions of



East Palo Alto and Palo Alto Gardens Drainage Maintenance Districts to be assumed by a city government if incorporation or annexation occurs.

Recommendation: Upon the incorporation or annexation of East Palo Alto, it is recommended that the Palo Alto Gardens Drainage Maintenance District and the East Palo Alto Drainage Maintenance District dissolve and transfer their service responsibility and property taxing capacity to the incorporated city of East Palo Alto.

#### H. Menlo Park Fire Protection District

Background: East Palo Alto currently receives fire protection and emergency services from the Menlo Park Fire Protection District. The Menlo Park Fire Protection District serves a large area of southern San Mateo County, including the cities of Menlo Park and Atherton and the unincorporated communities of East Palo Alto, North Fair Oaks, Dumbarton Oaks, the Sequoia tract, and University Heights. East Palo Alto comprises approximately 10% of the district's land service area.

The District maintains six fire stations, one of which is in East Palo Alto. Services provided by the District include: extinguishing fires, fire prevention, building and home inspection, and emergency medical services.

The District is governed by a Board of Directors elected by the residents of the District.

Options: There are two possible alternatives available for fire protection service.

- Turn the existing East Palo Alto Fire Station over to Palo Alto and have service to East Palo Alto provided by the Palo Alto Fire Department. This option would require annexation of East Palo Alto to Palo Alto and would gain neither fiscal efficiency nor gain the community a greater political control of services.
- The second option would be for the newly incorporated city of East Palo Alto to absorb the East Palo Alto portion of Menlo Fire Protection District and assume fire

protection responsibility. This option would create a fiscal hardship to the new city since Menlo Fire Protection District costs in East Palo Alto are funded from property tax and special district augmentation funds. If the city assumed fire protection responsibilities, it would be eligible for property tax revenue but not augmentation funds.

Recommendation: The Menlo Park Fire Protection District should continue to provide fire protection in East Palo Alto.

#### I. Private Water Companies

Background: There are two private water companies providing water service in East Palo Alto.

- Palo Alto Park Mutual District: This corporation provides water service from a well system for a portion of the East Palo Alto area north of the Bayshore freeway and bounded generally by Menalto Avenue on the west, Bay Road on the north, and Euclid Avenue on the east.
- O'Connor Tract Mutual District: This non-profit corporation provides water service for that portion of East Palo Alto south of the Bayshore freeway and west of Euclid Avenue.

The two private water companies are financed by user charges. Although there appear to be some water service problems, annexation of the water companies to the East Palo Alto Water District is unlikely. These water companies provide a specific service to a small portion of East Palo Alto.

Options: The private water companies could consolidate into the water department of the incorporated city of East Palo Alto. This would not represent a significant fiscal gain for the city while being a possible source for governmental and fiscal hardship.

Recommendation: The private water companies should continue to provide service.

#### J. Ravenswood Lighting District

Background: The Ravenswood Lighting District serves all of East Palo Alto. It is governed by the San Mateo County Board of Supervisors. The district contracts with Pacific Gas and

Electric Company for street lighting service. The district collects property taxes in East Palo Alto to pay for street lighting.

Options: There are two alternative service delivery options. Each involves either annexation (Menlo Park or Palo Alto) or incorporation.

- Annexation: If East Palo Alto annexes to either Menlo Park or Palo Alto, the street lighting responsibility and the property tax would shift to the annexing city.
- Incorporation: If East Palo Alto incorporates, the street lighting responsibility and property tax would shift to the new city. The new city could then continue to contract with PG&E for power and/or maintenance of street lights.

Recommendation: The duties of the Ravenswood Lighting District would be assumed upon incorporation of a new city of East Palo Alto. The responsibility of the district would be dissolved with responsibility and taxing power transferred to the new city.

#### K. Ravenswood Recreation and Park District

Background: Parks and recreation services are provided to East Palo Alto by the Ravenswood Recreation and Park District, a special district, and the Mid-Peninsula Open Space District. The district boundaries are generally coterminous with County Service Area No. 5. The district was formed in 1951 and has an independent Board of Directors.

The District's recreation facilities include three local parks. The Ravenswood Center Park is the main facility, located on a four and one-half acre site at University Avenue and Bell Street. Major improvements at the Center Park include a gymnasium, offices for the district's related activities, a social center, meeting rooms, and the community swimming pool. Other improvements include a kiosk area, a tot lot, volleyball courts, horse shoe pits, shuffle board courts, barbecue pits and picnic tables. Jack Farrell Park, located on a three and one-half acre site at Michigan Avenue and Fordham Street, and Martin Luther King Field, located on a two and one-half acre site on Daisy Lane off O'Connor Street, owned by the Sanitary District, are developed primarily as baseball fields.



Options: There are three possible alternatives for park and recreation service in East Palo Alto.

- Park and Recreation service could be provided by Menlo Park: This alternative would be possible if East Palo Alto annexes to Menlo Park. The park maintenance and recreation program would have the administrative support and management maturity of an established city which is familiar with requirements of East Palo Alto. Administrative control of the programs would move to Menlo Park.
- Park and Recreation service could be provided by Palo Alto. This alternative would be possible if East Palo Alto annexed to Palo Alto. The negative fiscal findings associated with the annexation (Appendix D) along with the lack of familiarity with East Palo Alto program needs lends little support for this alternative.
- Park and Recreation service could be provided by incorporated East Palo Alto: This alternative would be possible if East Palo Alto votes for incorporation. The transfer of park and recreation service to a city is appropriate and could add a broad administrative and management support from the city not possible in an independent district.

Recommendation: The duties and responsibilities of the Ravenswood Recreation and Park District would be assumed upon incorporation of East Palo Alto. The responsibility of service delivery, property tax and fee assessment capacity would transfer to the new city.



APPENDIX F  
SUMMARY OF PERSONNEL/RETIREMENT ISSUES



## I. PERSONNEL/RETIREMENT ISSUES

The analysis of personnel issues documents the benefits of the 7 districts in East Palo Alto with non-county personnel. Table F-1 indicates each district's health benefit plan, social security status and retirement plan. The key findings are:

- All agencies with retirement plans are fully funded. Transfers of personnel from one agency to another will not create a financial hardship on the surviving agency.
- Personnel who transfer to the surviving agency will not experience a loss of benefits.

The following analysis was completed by the San Mateo County LAFCo staff.

### A. Health Benefit Plan

The health benefit plans of the various agencies involved in the potential reorganization alternatives are an issue to be addressed.

Upon potential reorganization of the subject agencies, if San Mateo County employees were to be employed by an adjacent city (Menlo Park, Palo Alto), there is no existing policy for transferring any accrued health benefits. Each city has its own health benefit plan. If county employees were to become employees of a new city, the county transfer policy remains the same and crediting of any benefits would be an optional policy of the new agency.

Likewise, the Ravenswood Recreation and Park District employees who participate in the County Plan would be subject to the same non-transfer policy. Furthermore, unlike the county employees, the recreation district employees do not accrue health benefit coverage per sick leave that is on the record at date of retirement.

The East Palo Alto Sanitary District has recently begun to participate in the Kaiser Foundation Health Plan and has no policy for transferring benefits. If said district were to be reorganized with an adjacent city or district, there is no outstanding policy for crediting benefits of transferring employees. However, new employees would be eligible to become

Table F-1

## STATUS OF AGENCY BENEFITS

Agency	Health Benefit Plan	Social Security	Retirement Benefits
1. County of San Mateo			
a. County Service Area 5	County Health Plan	Yes	County Package
b. East Palo Alto Waterworks	County Health Plan	Yes	County Package
2. East Palo Alto Sanitary District	Own Benefit Plan	No	Bradford Trust Company
3. Ravenswood Recreation and Park District	County Health Plan	No	PERS <sup>1)</sup>
4. Menlo Park Fire Protection District	Own Benefit Plan	No	PERS
5. Menlo Park Sanitary District	Own Benefit Plan	No	PERS
6. City of Menlo Park	Own Benefit Plan	No	PERS
7. City of Palo Alto	Own Benefit Plan	No	PERS

1) Public Employees Retirement System

Source: Local Agency Formation Commission.



members of the agency's benefit plans. If the district employees were to become employed by a new city, then creating and crediting health benefits would be a policy to be established.

#### B. Social Security Status

In order to identify the Social Security status of the various agencies potentially involved in the discussed reorganizations, the following identifies the status, and policies.

If existing San Mateo County employees were to be employed by an adjacent city (Menlo Park, Palo Alto), upon reorganization they will not have Social Security unless the city requests an agreement for the program. Likewise, county employees who became employees of a new city will not have Social Security coverage unless the new city requests an agreement.

The East Palo Alto Sanitary District has no Social Security agreement; therefore, if employees of the district became subsequent employees of an adjacent district or new city, there would be no Social Security unless contracted.

The Ravenswood Recreation and Park District is covered by Social Security; however, if the present employees became part of an adjacent city, there would be no Social Security.

The transferring employees from an agency with Social Security status, to an agency without, would not be able to transfer money accrued. The funds paid in to the Social Security system would remain and become payable on retirement.

#### C. Retirement Benefits

In an effort to assess the potential problems with employee retirement benefits of the various agency reorganization alternatives, the following identifies the benefit carrier of each agency, the procedures and policies.

The main issue presented in any of the possible reorganization alternatives is whether or not existing agency employees' retirement benefits will be adversely affected if they become employees of a successor agency due to a reorganization.

If existing San Mateo County employees were to be subsequently employed by an adjacent city (Menlo Park, Palo Alto) upon reorganization, then they would become members of the Public

Employees' Retirement System (PERS). Likewise, if a new city were to incorporate and contract with PERS, any existing county employees, as well as new employees, would become members of PERS.

San Mateo County is a 1937 Act county and has reciprocity with PERS. This means that the retirement benefits accrued by the county member would remain in the county system and collect interest until retirement of a transferring employee. The county would then pay out retirement benefits for years served with the county, based on the highest salary with a public agency. The result is that there would be an insignificant effect on retirement benefits for county employees transferring to an agency contracting with PERS.

In the possible case of the special districts of East Palo Alto Sanitary District and Ravenswood Recreation and Park District reorganizing with a contracting PERS district, exiting city or new city, the employees would be considered new employees and would be covered by PERS from the date of employment. The East Palo Alto Sanitary District has no retirement benefit plan and transfer of employees would not result in a loss of any such benefits.

Ravenswood Recreation and Park District is presently contracting with the Bradford Trust Company. Upon a reorganization of the district with a PERS contracting agency, it would be necessary to terminate the contract with Bradford Trust. As stated, the employees would be considered new employees of a city and would be entitled to whatever benefits were payable by the Trust Company for service rendered prior to the reorganization into the PERS agency.

If the recreation district wanted to provide employees with PERS service rendered prior to the reorganization, it would be necessary to have the district itself contract with PERS and if the contract with the Trust Company permits, the member accounts could be transferred into PERS. Then upon reorganization with a PERS contracting agency, district service could be merged as a PERS service credit.

It should be noted that any reorganization alternative will require actuarial valuations to determine the employer contribution rate resulting from a new agency contracting with PERS or reorganization with a contracting PERS agency.

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